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The Great Atlantic & Pacific Tea Company, Inc.

Fiscal 2001

Annual Report to Stockholders

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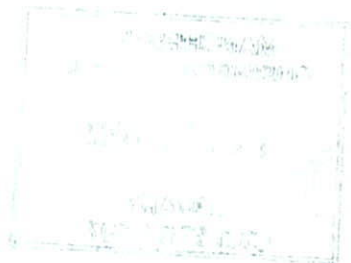


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Company Profile

The Great Atlantic & Pacific Tea Company, Inc. ("the Company"), based in Montvale, New Jersey, operates combination food and drug stores, conventional supermarkets and limited assortment food stores in 16 U.S. states, the District of Columbia and Ontario, Canada, under the A&P®, Waldbaum's™, Super Foodmart, The Food Emporium™, Super Fresh®, Farmer Jack®, Kohl's, Sav-A-Center®, Dominion®, Ultra Food & Drug, Food Basics™ and The Barn Markets trade names. Through its Compass Foods Division, the Company also manufactures and distributes a line of whole bean coffees under the Eight O'Clock®, Bokar® and Royale™ labels, both for sale through its own stores as well as other retail channels.

The Great Atlantic & Pacific Tea Company, Inc.

Comparative Highlights

(Dollars in thousands, except per share amounts)

	Fiscal 2001	Fiscal 2000 As Restated ^(d)	Fiscal 1999 As Restated ^(d)
Sales	\$10,973,315	\$10,622,866	\$10,151,334
(Loss) income from operations ^(a)	(23,524)	66,030	147,082
(Loss) income before extraordinary item	(64,684)	(19,500)	35,313
Net (loss) income ^(b)	(71,906)	(19,500)	35,313
(Loss) income per share before extraordinary item – basic and diluted	(1.69)	(0.51)	0.92
Net (loss) income per share – basic and diluted	(1.88)	(0.51)	0.92
Cash dividends per share	—	0.30	0.40
Expenditures for property	246,182	415,842	479,572
Depreciation and amortization	262,552	255,771	232,712
Working capital	27,611	67,811	65,544
Net debt ^(c)	806,402	1,039,947	970,342
Stockholders' equity	672,988	748,811	792,138
Debt to total capitalization	57%	58%	56%
Book value per share	17.54	19.53	20.65
New store openings	21	47	54
Number of stores at year end	702	752	750
Number of franchised stores served at year end	67	68	65

(a) Asset disposition initiative	\$ (193,468)	\$ —	\$ (59,886)
Gain on proceeds from insurance company demutualization	60,606	—	—
All other earnings from operations	109,338	66,030	206,968
(Loss) income from operations	<u>\$ (23,524)</u>	<u>\$ 66,030</u>	<u>\$ 147,082</u>

(b) Asset disposition initiative	\$ (112,268)	\$ —	\$ (34,836)
Gain on proceeds from insurance company demutualization	35,151	—	—
Extraordinary loss on early extinguishment of debt	(7,222)	—	—
All other earnings (losses)	12,433	(19,500)	70,149
Net (loss) income	<u>\$ (71,906)</u>	<u>\$ (19,500)</u>	<u>\$ 35,313</u>

(c) Net debt consists of obligations for long-term borrowings and capital leases reduced by cash equivalents and short-term investments.

(d) See Note 2 – Restatement of Previously Issued Financial Statements in the Company's Consolidated Financial Statements.

CEO Letter to Stockholders

To Our Stockholders:

Fiscal 2001 was a year in which we made solid progress despite facing many challenges. A&P achieved improved results from ongoing operations and implemented significant organizational changes.

Shortly before we planned to file our annual report, we discovered certain irregularities relating to the appropriate timing for the recognition of vendor allowances and the accounting for inventory. We promptly commenced a Company-wide review of these accounting issues. As a result of this review, we have restated our financial results for certain periods to reflect, among other changes outlined below, the appropriate timing for the recognition of certain vendor allowances received and to reflect the appropriate accounting for a small amount of inventory associated with a single region. We are in the process of implementing additional procedural changes designed to prevent such irregularities in the future.

Once we decided to restate our financial statements for the reasons stated above, we also reviewed all our accounting for the restated years and, determined that it was appropriate to restate our accounting for vendor allowances, self-insurance reserves and closed store sublease income. Footnote 2 of our Financial Statements more fully discusses these matters.

The fiscal year ended February 23, 2002 marked our return to net profitability, achieved in the second quarter, and our 15th consecutive quarter of improved comparable store sales.

Our successful rebound from the challenges of the previous year, despite the persistent economic uncertainty that intensified after the tragic events of September 11, was first and foremost the result of a clear strategic direction and our focus on five key priorities:

- Achieve operational excellence;
- Implement our supply chain and business process initiative;
- Reduce all costs;
- Identify profitable growth opportunities in our core markets; and
- Align and strengthen our organization through performance management.

Comprehensive programs addressing all of those objectives were emphasized in fiscal 2001, enabling us to reverse and steadily improve our earnings trend, while preserving a rate of comparable store sales growth that was among the best in our industry.

We significantly strengthened our balance sheet and secured our long-term liquidity by reducing total net debt by \$234 million, and issuing \$275 million in new 10 year notes. We have the financing in place to complete our strategic infrastructure investments, and with our improving operating results, we expect to further strengthen our financial position.

Our productivity and cost reduction efforts included rigorous asset management and strategic sourcing programs to lower both inventory and supply expenses. We also reduced administrative costs and established strict controls to better manage overhead going forward.

Through the aligned efforts of corporate, regional and field management, we sharpened our focus on store operating fundamentals and labor standards, execution of merchandising programs and improvement of our customer service capability throughout the year. While the opportunity to further enhance performance in these areas is substantial, our improved results, market share growth and positive customer feedback confirm our solid progress at the store level.

We also acted to improve the overall quality and growth potential of our store network with our decision to close 39 under performing stores, as part of the asset disposition program announced in November of 2001. This will enable us to direct our efforts and resources to locations we believe will contribute strong top and bottom line results going forward.

We continued to modernize our store base in fiscal 2001, adding 21 new stores and remodeling 26. Our fiscal 2002 capital plan calls for 25 new stores, and 70-75 enlargement and remodeling projects. This reflects our strategy to increase investment in the improvement of existing stores to drive profitable growth within our core operations. Overall, we have established more rigorous standards for the evaluation of all capital improvement projects, to ensure their success and maximize our return on capital invested.

The Company's business process initiative advanced in 2001, as we began to realize benefits from the initial elements in place. We enhanced the productivity and effectiveness of our Supply & Logistics operations by implementing our new warehouse and transportation management systems. The ongoing improvement of our distribution capability, combined with the closure of two warehouses, will further improve service levels while also reducing costs.

Additional progress in this important initiative lies immediately ahead, with the upcoming implementation of our category management and merchandising systems. We are confident that over the next year, we will remain on track to execute the remaining phases of the initiative, and realize the systemic and financial benefits as planned.

On the all-important people side of our business, we made positive strides in our organizational development efforts. Our annual company-wide associate opinion survey, performed in conjunction with The Gallup Organization, again provided valuable insights into the ability of our management to engage our associates in the initiatives of the Company at all levels. Participation in the survey increased in fiscal 2001, as did our overall employee engagement ratings. We expect to further improve those results as we move forward with the input of our associates in mind.

A number of key appointments strengthened our executive and regional management in the latter part of the year. The appointment of Elizabeth R. Culligan as President & Chief Operating Officer and her election to our Board of Directors reflect her significant contributions during her first year with A&P.

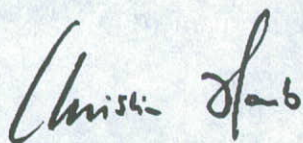
Also strengthening our senior management was the promotion of Mitchell P. Goldstein to Senior Vice President & Chief Financial Officer, succeeding Fred Corrado who retired after a successful career with A&P.

Additionally, the promotions of John E. Metzger to Senior Vice President & Chief Information Officer, and David Smithies to President of our Atlantic Region, have to further strengthen our management.

Finally, we upgraded our expertise and competency in such critical disciplines as marketing, information services and supply & logistics, to provide the functional leadership necessary to our ongoing success.

Going forward in fiscal 2002, we are planning and managing our business in anticipation of a difficult economic and competitive environment. I am confident that our experienced management team, clear strategy and improving store network and support organization will help to maximize our performance in these challenging times, and position us for the growth opportunities that lie ahead.

On behalf of our Board of Directors and Management, my thanks to all of our associates, customers, suppliers and stockholders for their support in fiscal 2001, especially in light of the issues with which we were recently confronted. We look forward to better serving each of these vital constituencies in 2002 and beyond, as we strive to achieve our ultimate mission . . . to become The Supermarket of Choice®, where people choose to shop, work, and invest.

A handwritten signature in dark ink, appearing to read "Christian Haub". The signature is fluid and cursive, with the first name "Christian" written in a larger, more prominent script than the last name "Haub".

Christian Haub
Chairman of the Board
& Chief Executive Officer
July 3, 2002

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis

BASIS OF PRESENTATION

The Company's fiscal year ends on the last Saturday in February. Fiscal 2001 ended February 23, 2002, fiscal 2000 ended February 24, 2001 and fiscal 1999 ended February 26, 2000. Fiscal 2001, fiscal 2000 and fiscal 1999 were each comprised of 52 weeks. Except where noted, all net income per share data presented is both basic and diluted.

RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Prior to filing its 2001 Annual Report on Form 10-K, the Company discovered certain irregularities relating to the timing for the recognition of vendor allowances and the accounting for inventory. As the Company announced on May 24, 2002, it promptly commenced a review of these issues. This review caused the Company to delay filing its Annual Report on Form 10-K. As a result of this review, the Company has restated its financial statements for fiscal 1999, fiscal 2000 and the first, second and third quarters of fiscal 2001, to adjust for vendor allowances recorded prior to the accounting period in which earned, and improper inventory adjustments, each in violation of Company policies.

As summarized immediately below, the Company has concluded that the financial statements should also be restated to reflect primarily 1) the appropriate timing for the recognition of vendor allowances received, 2) an actuarially-based method of estimating self-insurance reserves, and 3) timing of recognition of sublet income associated with certain closed stores.

Vendor Allowances

The Company enters into agreements with vendors to receive cash allowances for, among other things, slotting, purchase volume, advertising, and carrying of new products. It is appropriate to record these allowances as a reduction of the cost of merchandise sold during the periods in which they are earned. The Company's previous methodology for recognizing vendor allowances for certain one-year and multi-year allowance contracts resulted in the inappropriate timing of the recognition of cost reductions. The Company's financial statements have been adjusted to reflect the effect of proper recognition of such allowances as reductions of cost of merchandise sold in the period earned.

Self-Insurance Reserves

The Company's insurance coverages result in significant self-insured risks. The Company's previous method of establishing its self-insurance reserves was not based on an appropriate methodology. Accordingly, the Company has adjusted the financial results based on actuarially determined estimates.

Closed Store Subleases

In recording accruals for closed stores, the Company's previous methodology resulted, for certain properties, in the recognition of a portion of sublease amounts in excess of the related obligations. The Company has adjusted the financial statements to restore such excess to the closed store accruals. Such methodology had no effect on stores closed as part of the Asset Disposition Initiative discussed in Note 3 of the Company's Consolidated Financial Statements.

For a further discussion of these matters see Notes 2 and 18 to the Consolidated Financial Statements.

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

OPERATING RESULTS

Fiscal 2001 Compared with 2000

OVERALL

Sales for fiscal 2001 were \$11.0 billion, compared with \$10.6 billion in fiscal 2000; comparable store sales increased 2.6%. Net loss per share for fiscal 2001 was \$1.88. Included in the Company's results for fiscal 2001 was an extraordinary after tax loss of \$7 million or \$0.19 per share for the cost of repurchasing \$178 million of its 7.70% Senior Notes due January 15, 2004 and \$20 million of its 7.75% Notes due April 15, 2007, a \$193 million charge (\$112 million after tax or \$2.88 per share – diluted) relating to its asset disposition initiative (see Note 3 of the Company's Consolidated Financial Statements), and a nonrecurring pretax gain of \$61 million (\$35 million after tax or \$0.90 per share – diluted) from proceeds received as a result of the demutualization of The Prudential Insurance Company.

The following schedule details the adjustments from "as reported" to "as adjusted" results for fiscal 2001:

(In millions)	Adjustments to be (added) subtracted				Fiscal 2001 results as adjusted	Fiscal 2000 results As Restated*
	Fiscal 2001 results as reported	Asset disposition initiative	Extraordinary loss	Gain on proceeds		
Sales	\$10,973.3	\$ —	\$ —	\$ —	\$10,973.3	\$10,622.9
Cost of merchandise sold	(7,822.6)	(3.9)	—	—	(7,818.7)	(7,581.1)
Gross margin	3,150.7	(3.9)	—	—	3,154.6	3,041.8
Rate to sales	28.71%				28.75%	28.63%
Store operating, general and administrative expense	(3,234.8)	(189.6)	—	—	(3,045.2)	(2,975.7)
Rate to sales	29.48%				27.75%	28.01%
Gain on proceeds from the demutualization of a mutual insurance company	60.6	—	—	60.6	—	—
(Loss) income from operations	(23.5)	(193.5)	—	60.6	109.4	66.1
Interest expense	(91.7)	—	—	—	(91.7)	(102.5)
Interest income	6.9	—	—	—	6.9	6.2
(Loss) income before income taxes and extraordinary item	(108.3)	(193.5)	—	60.6	24.6	(30.2)
Benefit from (provision for) income taxes	43.6	81.2	—	(25.5)	(12.1)	10.7
(Loss) income before extraordinary item	(64.7)	(112.3)	—	35.1	12.5	(19.5)
Extraordinary loss on early extinguishment of debt, net of income tax benefit of \$5.2	(7.2)	—	(7.2)	—	—	—
Net (loss) income	\$ (71.9)	\$ (112.3)	\$ (7.2)	\$ 35.1	\$ 12.5	\$ (19.5)

* See Note 2 – Restatement of Previously Issued Financial Statements in the Company's Consolidated Financial Statements.

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

SALES

Sales for fiscal 2001 of \$10,973 million increased \$350 million or 3.3% from sales of \$10,623 million for fiscal 2000. The higher sales were due to increases in retail sales of \$304 million and wholesale sales of \$46 million. The increase in retail sales was attributable to the opening of 68 new stores since the beginning of fiscal 2000, of which 21 were opened in fiscal 2001, increasing sales by \$535 million. This increase was partially offset by the closure of 121 stores since the beginning of fiscal 2000, of which 72 were closed in fiscal 2001, which decreased sales \$437 million. Included in the 72 stores closed in fiscal 2001 were 31 stores closed as part of the asset disposition initiative. Additionally, the unfavorable effect of the Canadian exchange rate decreased sales \$81 million. The remainder of the increase in sales was caused primarily by increased comparable store sales, which include replacement stores, for fiscal 2001 of 2.6% (1.5% in the U.S. and 7.8% in Canada) when compared to fiscal 2000. The increase in wholesale sales was attributable to higher sales volume of \$76 million partially offset by the unfavorable effect of the Canadian exchange rate which decreased sales by \$30 million.

Sales in the U.S. increased by \$243 million or 2.9% compared to fiscal 2000. Sales in Canada increased by \$107 million or 4.5% from fiscal 2000.

Average weekly sales per supermarket were approximately \$275,100 for fiscal 2001 versus \$263,000 for the corresponding period of the prior year, an increase of 4.6%.

GROSS MARGIN

Gross margin as a percentage of sales increased 8 basis points to 28.71% for fiscal 2001 from 28.63% for fiscal 2000. The gross margin dollar increase of \$109 million resulted from increases in sales volume and the gross margin rate partially offset by a decrease in the Canadian exchange rate. The U.S. operations gross margin increase of \$89 million resulted from increases of \$74 million due to higher sales volume and \$15 million due to a higher gross margin rate. The Canadian operations gross margin increase of \$20 million resulted from an increase of \$48 million due to higher sales volume partially offset by a decrease of \$4 million due to a lower gross margin rate and a decrease of \$24 million from fluctuations in the Canadian exchange rate.

Included in gross margin for fiscal 2001 were costs related to the Company's asset disposition initiative of \$4 million which were incurred to mark down inventory in stores announced for closure. Excluding this charge, as a percentage of sales, gross margin would have been 28.75% and 28.63% for fiscal 2001 and fiscal 2000, respectively.

STORE OPERATING, GENERAL AND ADMINISTRATIVE EXPENSE

Store operating, general and administrative expense ("SG&A") was \$3,235 million for fiscal 2001 compared to \$2,976 million for fiscal 2000. As a percentage of sales, SG&A was 29.48% for fiscal 2001 compared to 28.01% for fiscal 2000.

Included in SG&A for fiscal 2001 were costs relating to the Company's asset disposition initiative of \$190 million as described in Note 3 of the Consolidated Financial Statements. Excluding this charge, SG&A was \$3,045 million or 27.75% as a percentage of sales. Also included in SG&A for fiscal 2001 and fiscal 2000 were costs relating to the Company's business process initiative of \$91 million and \$68 million, respectively. These costs primarily included professional consulting fees and salaries, including related benefits, of employees working full-time on the initiative. Excluding these charges, SG&A was \$2,954 million or 26.92% for fiscal 2001 compared to \$2,908 million or 27.37% for fiscal

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

2000. This decrease of 45 basis points was primarily due to lower store advertising costs, lower store opening and closing costs, and lower litigation expense.

GAIN ON PROCEEDS FROM THE DEMUTUALIZATION OF A MUTUAL INSURANCE COMPANY

During the fourth quarter of fiscal 2001, the Company received cash and common stock totaling \$61 million from the demutualization of The Prudential Insurance Company. This amount was recorded as a nonrecurring gain and included in the determination of pretax income for fiscal 2001.

INTEREST EXPENSE

Interest expense of \$92 million for fiscal 2001 decreased from the prior year amount of \$102 million. This was due to decreased borrowing requirements during fiscal 2001 compared to fiscal 2000 as a result of lower capital expenditures, a reduction in working capital and the proceeds received on the sale leaseback transactions described in Note 14 of the Consolidated Financial Statements. The reduction was also partially due to a decrease in interest rates.

Fiscal 2000 Compared with 1999

OVERALL

Sales for fiscal 2000 were \$10.6 billion, compared with \$10.2 billion in fiscal 1999; comparable store sales increased 2.2%.

Net loss per share for fiscal 2000 was \$0.51 compared to net income per share of \$0.92 for fiscal 1999. Included in the results for fiscal 1999 were costs related to the Company's asset disposition initiative of \$103 million pretax which consisted of \$60 million of costs related to the store exiting charges and \$43 million of operating costs incurred by the stores identified for closure prior to ceasing operations. Excluding the aforementioned charge, net income per share was \$2.48 in fiscal 1999.

SALES

Sales for fiscal 2000 of \$10,623 million increased \$472 million or 4.6% from the prior year. The increase in sales was primarily attributable to continued focus on the development of larger stores and comparable store sales increases. Retail square footage increased by approximately 1.0 million or 3.8% to 27.9 million square feet during fiscal 2000. This increase was accomplished primarily by opening 47 new stores which added 2.2 million retail square feet partially offset by closing 49 stores, which reduced retail square footage by 1.4 million. Comparable store sales, which include replacement stores, increased 2.2% in fiscal 2000 (1.6% in the U.S. and 4.9% in Canada).

Sales in the U.S. for fiscal 2000 increased by \$266 million or 3.3% compared to fiscal 1999. Sales in Canada for fiscal 2000 increased \$206 million or 9.5% from fiscal 1999.

Average weekly sales per supermarket were approximately \$263,000 for fiscal 2000 versus \$245,700 for fiscal 1999, an increase of 7.0%.

GROSS MARGIN

Gross margin as a percentage of sales decreased 11 basis points to 28.63% for fiscal 2000 from 28.74% for fiscal 1999. The gross margin dollar increase of \$125 million resulted from an increase in

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

sales volume partially offset by decreases in the gross margin rate and the Canadian exchange rate. The U.S. operations gross margin increase of \$97 million resulted from increases of \$81 million due to higher sales volume and \$16 million due to a higher gross margin rate. The Canadian operations gross margin increase of \$28 million resulted from an increase of \$54 million due to higher sales volume partially offset by a decrease of \$19 million due to a lower gross margin rate and a decrease of \$7 million from fluctuations in the Canadian exchange rate.

STORE OPERATING, GENERAL AND ADMINISTRATIVE EXPENSE

SG&A was \$2,976 million for fiscal 2000 compared to \$2,770 million for fiscal 1999. As a percentage of sales, SG&A increased from 27.29% in fiscal 1999 to 28.01% in fiscal 2000.

The SG&A expense for fiscal 2000 included \$68 million relating to the Company's business process initiative. Such costs primarily included professional consulting fees and salaries, including related benefits, of employees working full-time on the initiative.

The SG&A expense for fiscal 1999 included \$122 million relating to the asset disposition initiative announced in fiscal 1998, including \$75 million of costs related to the store exiting charges and \$69 million of operating costs incurred by the stores identified for closure prior to ceasing operations. This was partially offset by reversals of previously recorded restructuring charges due to favorable progress in marketing and subleasing the closed stores of \$22 million.

Excluding the aforementioned charges and the results of the stores identified for closure previously noted, as a percentage of sales, SG&A increased from 26.50% for fiscal 1999 to 27.37% for fiscal 2000. The increase of 87 basis points was primarily due to higher labor, occupancy and store closing costs in fiscal 2000.

INTEREST EXPENSE

Interest expense for fiscal 2000 increased \$12 million or 13.3% from fiscal 1999 due to the increase in average borrowings, as well as an increase in interest rates primarily associated with the 9.375% Senior Quarterly Interest Bonds issued in August, 1999.

ASSET DISPOSITION INITIATIVE

In May 1998, the Company initiated an assessment of its business operations in order to identify the factors that were impacting the performance of the Company. As a result of this assessment, in fiscal 1998 and fiscal 1999, the Company announced a plan to close two warehouse facilities and a coffee plant in the U.S., a bakery plant in Canada and 166 stores including the exit of the Richmond, Virginia and Atlanta, Georgia markets.

As of February 23, 2002, the Company had closed all stores and facilities related to this phase of the initiative. Additionally, the Company paid \$29 million of the total net severance charges from the time of the original charges through February 23, 2002, which resulted from the termination of approximately 3,400 employees. The remaining severance liability primarily relates to future obligations for early withdrawals from multi-employer union pension plans.

At each balance sheet date, Management assesses the adequacy of the reserve balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. The Company has made favorable progress to date in marketing and subleasing the closed stores. As a result, in the

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

third quarter of fiscal 1999, the Company recorded a net reduction in SG&A of \$22 million to reverse a portion of the original charge. This amount primarily represents a reduction in SG&A for lower store occupancy costs resulting from earlier than anticipated lease terminations and subleases. Additionally, in fiscal 2000, the Company recorded a net reduction in SG&A of \$3 million to reverse a portion of the original charge. The reversal is primarily the result of a change in estimate resulting from the sale of one of the Company's warehouses sold during the first quarter of fiscal 2000.

During the third quarter of fiscal 2001, the Company's Board of Directors approved a plan resulting from Management's review of the performance and potential of each of the Company's businesses and individual stores. At the conclusion of this review, the Company determined that certain underperforming operations, including 39 stores (30 in the United States and 9 in Canada) and 3 warehouses should be closed and/or sold, and certain administrative streamlining should take place. As a result of these decisions, the Company announced on November 14, 2001 that it would incur costs of approximately \$200 — \$215 million pretax (\$115 — \$125 million after tax) through the third quarter of fiscal 2002. Of this amount, \$193 million pretax (\$112 million after tax) was included in the Statements of Consolidated Operations for fiscal 2001. The components of this net pretax charge were as follows:

- \$180 million of costs to close the stores and warehouses and perform certain administrative streamlining, of which \$64 million related to the present value of future occupancy obligations, \$85 million related to the write-down of fixed assets, \$24 million related to severance for store and administrative personnel and \$7 million related to other miscellaneous items;
- \$21 million of costs to discontinue development of 4 potential stores of which \$17 million related to the present value of future occupancy obligations and \$4 million related to fixed asset write-offs; and
- \$8 million in gains on the sale of other properties and equipment, primarily land and buildings.

Of this pretax charge, \$4 million was included in "Cost of merchandise sold" and \$189 million was included in "Store operating, general and administrative expense" in the Statements of Consolidated Operations for fiscal 2001.

To the extent fixed assets included in the items noted above could be used in other continuing operations, the Company will transfer those assets as needed. Fixed assets that the Company cannot transfer to other operations will be scrapped. Accordingly, the write-down recorded during fiscal 2001 was based on expected transfers.

As of February 23, 2002, the Company had closed 31 of the aforementioned stores.

At each balance sheet date, Management assesses the adequacy of the reserve balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. As a result of such assessment, during the fourth quarter of fiscal 2001, the Company recorded an adjustment to severance and benefits of approximately \$1 million related to a reduction in the severance payments required to be made to certain store employees in Canada. Under Ontario provincial law, employees to be terminated as part of a mass termination are entitled to receive compensation, either worked or paid as severance, for a set period of time after the official notice date. Since such closures took place later than originally expected, less time remained in the aforementioned guarantee period.

As of February 23, 2002, the Company paid approximately \$3 million of the total severance charge recorded to date which resulted from the termination of approximately 850 employees. The remaining individual severance payments will be paid by the end of fiscal 2003.

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

Based upon current available information, Management evaluated the reserve balances as of February 23, 2002 of \$66 million for the 1998 phase of the asset disposition initiative and \$100 million for the 2001 phase of the asset disposition initiative and has concluded that they are adequate. The Company will continue to monitor the status of the vacant properties and adjustments to the reserve balances may be recorded in the future, if necessary.

BUSINESS PROCESS INITIATIVE

On March 13, 2000, the Company announced a four-year project to develop a state-of-the-art supply chain and business management infrastructure.

A team of A&P executives and managers representing all key business functions is working with a team of strategic alliance consultants concentrating on the food and drug retailing industry formed by information technology industry leaders. This combined team is upgrading all processes and business systems related to the flow of information and products between A&P-operated offices, distribution points and stores; and between the Company and its suppliers. Such business processes support Store Operations, Marketing and Merchandising, Supply and Logistics, People Resources & Services, Finance and the enabling technologies.

Overall, the Company expects to achieve substantial cash benefits resulting from improved margins, lower operating expenses, reduced working capital and better product availability. After implementation is completed in fiscal 2003, the Company expects to significantly raise the level of ongoing annual operating income.

Costs related to implementing this initiative reduced diluted net earnings for fiscal 2001 and 2000 by \$1.46 and \$1.15 per share, respectively. The Company expects the cost of implementing this initiative to reduce net earnings for fiscal 2002 by approximately \$1.10 – \$1.20 per share.

LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of \$28 million at February 23, 2002 compared to \$68 million at February 24, 2001. The Company had cash and cash equivalents aggregating \$169 million at the end of fiscal 2001 compared to \$132 million at the end of fiscal 2000. Working capital of \$28 million at February 23, 2002 included \$35 million of cash classified as "Cash and cash equivalents" on the Company's Consolidated Balance Sheets and \$27 million of short-term investments classified as "Prepaid expenses and other current assets" on the Company's Consolidated Balance Sheets received as a result of the demutualization of Prudential Insurance Company (see Note 15 of the Company's Consolidated Financial Statements for further details). After adjusting for this item, the Company had negative working capital of \$35 million at February 23, 2002. Working capital of \$68 million at February 24, 2001 included \$28 million of assets held for sale within "Prepaid expenses and other current assets" on the Company's Consolidated Balance Sheets relating to assets to be sold and leased back in early fiscal 2001 (see Note 14 of the Company's Consolidated Financial Statements). Excluding the items described above, the decrease in working capital was attributable primarily to a decrease in inventories and increases in book overdrafts and other accruals, partially offset by increases in accounts receivable and prepaid expenses and other current assets and decreases in accounts payable and current portion of long-term debt.

On December 14, 2001, the Company issued \$275 million 9½% Senior Notes due December 15, 2011. These notes pay interest semi-annually on June 15 and December 15 and are callable beginning

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

December 15, 2006. The Company used the proceeds from the issuance of these notes to repay approximately \$178 million of the total \$200 million 7.70% Senior Notes due January 15, 2004 and for general corporate purposes including repayment of borrowings under the Company's secured revolving credit agreement. The repayment of approximately \$178 million of the 7.70% Senior Notes due January 15, 2004 took place in the form of a tender offer whereby the Company paid a 6.25% premium to par. In addition, the Company repurchased in the open market \$20 million of its 7.75% Notes due April 15, 2007. The net cost of this tender and open market repurchase resulted in an extraordinary loss due to the early extinguishment of debt of \$7 million after tax (\$12 million pretax). The Company has the right to make additional repurchases and intends to do so from time to time in the future.

At February 23, 2002, the Company had a \$425 million secured revolving credit agreement (the "Secured Credit Agreement") expiring December 31, 2003, with a syndicate of lenders, enabling it to borrow funds on a revolving basis sufficient to refinance short-term borrowings and provide working capital as needed. This agreement was secured primarily by inventory and company-owned real estate. The Secured Credit Agreement was comprised of a U.S. credit agreement amounting to \$340 million and a Canadian credit agreement amounting to \$85 million (C\$136 million at February 23, 2002). As of February 23, 2002, the Company had no borrowings under the Secured Credit Agreement. Accordingly, as of February 23, 2002, after reducing availability for outstanding letters of credit and inventory requirements, the Company had \$367 million available under the Secured Credit Agreement. Borrowings under the agreement bear interest based on the variable LIBOR pricing. On March 21, 2002 and April 23, 2002, the Company amended the Secured Credit Agreement in order to allow for, among other things, additional debt repayments, the ability to enter additional interest rate hedging agreements and an increase in the amount of letters of credit available under the agreement. In addition, \$385 million of the initial \$425 million of loan commitments under the original facility scheduled to expire in December 2003 was extended for an additional 18 months and will now expire in June 2005.

The Company's loan agreements and certain of its notes contain various financial covenants which require, among other things, minimum fixed charge coverage and maximum levels of leverage and capital expenditures. At February 23, 2002, the Company was in compliance with all of its covenants.

As a result of its delayed filing of the Annual Report on Form 10-K as described in Note 2 of the Company's Consolidated Financial Statements, the Company was not in compliance with its reporting covenant and therefore became unable to draw upon the Secured Credit Agreement. On June 14, 2002 the Company received a waiver from its lenders allowing it to borrow up to \$50 million under the Secured Credit Agreement through July 29, 2002. The filing of this Annual Report on Form 10-K cures said covenant violation. The filing delay has also caused a covenant violation under the indenture covering the Company's debt. Such violation is cured upon filing.

The Company has active Registration Statements dated January 23, 1998 and June 23, 1999, allowing it to offer up to \$75 million of debt and/or equity securities as of February 23, 2002 at terms determined by market conditions at the time of sale.

During fiscal 2001, the Company sold 9 properties and simultaneously leased them back from the purchaser. Net proceeds received by the Company related to these transactions amounted to approximately \$65 million. The Company expects to enter into similar transactions with other owned properties from time to time in the future.

During fiscal 2001, the Company funded its capital expenditures and debt repayments through internally generated funds combined with proceeds from disposals of property, revolving lines of credit

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

and the issuance of \$275 million 9%% Senior Notes due 2011. Capital expenditures totaled \$246 million during fiscal 2001, which included 21 new supermarkets, 26 major remodels or enlargements and capital expenditures related to the business process initiative.

For fiscal 2002, the Company has planned capital expenditures of approximately \$300 million. These expenditures relate primarily to opening 25 new supermarkets, enlarging or remodeling 70 – 75 supermarkets, and capital purchases associated with the Company's business process initiative. The Company currently expects to close a total of approximately 15 – 20 stores in fiscal 2002.

The Company does not expect to pay dividends during fiscal 2002.

As of February 23, 2002, the Company had the following material contractual obligations and commitments:

	Payments Due by Period (in millions)				
	Total	Fiscal 2002	Fiscal 2003 and 2004	Fiscal 2005 and 2006	Thereafter
<u>Contractual Obligations</u>					
Debt	\$ 781.5	\$ 0.5	\$ 23.3	\$ 0.2	\$ 757.5
Capital Leases	213.5	22.3	38.7	27.6	124.9
Operating Leases	3,350.8	249.0	471.0	434.5	2,196.3
Technology-Related	36.1	28.9	7.2	—	—
Purchase Commitments	57.6	30.4	27.2	—	—
Interest on Debt	1,080.1	67.4	133.1	131.3	748.3
Total	<u>\$5,519.6</u>	<u>\$398.5</u>	<u>\$700.5</u>	<u>\$593.6</u>	<u>\$3,827.0</u>

	Expiration of Commitments (in millions)				
	Total	Fiscal 2002	Fiscal 2003 and 2004	Fiscal 2005 and 2006	Thereafter
<u>Other Commitments</u>					
Guarantees	<u>\$ 2.5</u>	<u>\$ 0.2</u>	<u>\$ 0.7</u>	<u>\$ 0.8</u>	<u>\$ 0.8</u>

The Company is the guarantor of a debt commitment of \$2.5 million which will expire in 2011.

The Company has product supply agreements that require it to make purchases totaling \$58 million as of February 23, 2002.

The Company's existing senior debt rating was B2 with negative implications with Moody's Investors Service and BB with negative implications with Standard & Poor's Ratings Group as of February 23, 2002. Future rating changes could affect the availability and cost of financing to the Company.

The Company believes that its current cash resources, including the funds available under the Secured Credit Agreement, together with cash generated from operations, will be sufficient for the Company's capital expenditure programs and mandatory scheduled debt repayments throughout fiscal 2002. However, certain external factors such as unfavorable economic conditions, competition, labor relations, and fuel and utility costs could have a significant impact on cash generated from operations.

MARKET RISK

Market risk represents the risk of loss from adverse market changes that may impact the consolidated financial position, results of operations or cash flows of the Company. Among other

The Great Atlantic & Pacific Tea Company, Inc.
Management's Discussion and Analysis – Continued

possible market risks, the Company is exposed to such risk in the areas of interest rates and foreign currency exchange rates.

From time to time, the Company may enter hedging agreements in order to manage risks incurred in the normal course of business including the managing of interest expense and exposure to fluctuations in foreign exchange rates. These agreements may include interest rate swaps, locks, caps, floors and collars as well as the use of foreign currency swaps and forward exchange contracts.

Interest Rates

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's debt obligations. The Company has no cash flow exposure due to rate changes on its \$777 million in notes as of February 23, 2002 because they are at fixed interest rates. However, the Company does have cash flow exposure on its committed and uncommitted bank lines of credit due to its variable LIBOR pricing. Accordingly, during fiscal 2001, a presumed 1% change in LIBOR would have impacted interest expense by \$1 million.

On January 4, 2002, the Company entered into an interest rate hedging agreement with a commercial bank with a notional amount of \$50 million maturing on April 15, 2007. This hedging agreement was designated as a fair value hedging instrument and effectively converts a portion of the Company's 7.75% Notes due April 15, 2007 from fixed rate debt to floating rate debt. There were no ineffective changes in fair value of this hedging agreement. At February 23, 2002, this hedging agreement had a fair value of \$1 million. A presumed 1% change in LIBOR during the time the hedging agreements was outstanding during fiscal 2001 would not have had a material impact on borrowing costs.

On April 25, 2002 and April 26, 2002, the Company entered into additional interest rate hedging agreements with notional amounts totaling \$100 million maturing on April 15, 2007. These hedging agreements were designated as fair value hedging instruments and effectively convert an additional portion of the Company's 7.75% Notes due April 15, 2007 from fixed rate debt to floating rate debt. There were no ineffective changes in fair value of these hedging agreements.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk to the extent of adverse fluctuations in the Canadian dollar. During fiscal 2001, a change in the Canadian currency of 10% would have resulted in a fluctuation in net income of \$2 million. The Company does not believe that a change in the Canadian currency of 10% will have a material effect on its financial position or cash flows.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those accounting policies that Management believes are important to the portrayal of the Company's financial condition and results and require Management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and

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the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Insurance

The Consolidated Balance Sheets include liabilities with respect to self-insured workers' compensation and general liability claims. The Company determines the required liability of such claims on a discounted basis, utilizing an actuarially determined method which is based upon various assumptions which include, but are not limited to, the Company's historical loss experience, projected loss development factors, actual payroll, and other data. It is possible that the final resolution of some of these claims may vary from the Company's estimate of existing reserves.

Long-Lived Assets

The Company reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Such review is based upon groups of assets and the undiscounted estimated future cash flows from such assets to determine if the carrying value of such assets are recoverable from their respective cash flows. If such review indicates an impairment exists, the Company measures such impairment on a discounted basis.

Store Closing Reserves

For stores to be closed that are under long-term leases, the Company records a liability for the future minimum lease payments and related costs from the date of closure to the end of the remaining lease term, net of estimated cost recoveries. The Company estimates future net cash flows based on its experience and knowledge of the market in which the store expected to be closed is located. However, these estimates project net cash flow several years into the future and are affected by variable factors such as inflation, real estate markets and economic conditions.

Net Operating Loss Carryforwards

The Company has net operating loss carryforwards from its Canadian and U.S. operations. The Canadian portion of the net operating loss carryforwards will expire between February 2003 and February 2009 and the U.S. portion will expire between February 2019 and February 2022. The Company has assessed its ability to utilize the net operating loss carryforwards and concluded that no valuation allowance currently is required since the Company believes that it is more likely than not that the net operating loss carryforwards will be utilized either by generating taxable income or through tax planning strategies. However, this cannot be assured. Accordingly, some portions of these net operating loss carryforwards may expire before they can be utilized by the Company to reduce its income tax obligations.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 142, "Goodwill and Other Intangible Assets". The provisions of this statement are required to be applied by the Company starting with fiscal 2002. This statement is required to be applied to all goodwill and other intangible assets recognized in the Company's financial statements at the date of adoption. At that time, goodwill will no longer be amortized, but will be tested

The Great Atlantic & Pacific Tea Company, Inc.
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for impairment annually. Amortization expense for fiscal years 2001, 2000 and 1999 was \$1.4 million, \$1.5 million and \$1.2 million, respectively. Additionally, impairment losses for goodwill and indefinite-lived intangible assets that arise due to the initial application of this statement would be reported as resulting from a change in accounting principle. The Company intends to complete its assessment of the impact that this statement will have on its financial statements during the second quarter of fiscal 2002.

In June 2001, the FASB issued SFAS 143, "Accounting For Asset Retirement Obligations". This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is required to adopt the provisions of SFAS No. 143 at the beginning of fiscal 2003. The Company has determined that the adoption of this statement will not have a material impact on its financial position or results of operations.

In August 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. This statement also broadens the presentation of discontinued operations to include more disposal transactions. The provisions of this statement are required to be adopted by the Company at the beginning of fiscal 2002. The Company is currently assessing the impact this statement will have on its financial statements.

In April 2002, the FASB issued SFAS 145, "Recission of FASB Statements 4, 44 and 64, Amendment of FASB Statement 13, and Technical Corrections". SFAS 145 rescinds the provisions of SFAS 4 that requires companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of SFAS 13 to require that certain lease modifications be treated as sale leaseback transactions. The provisions of SFAS 145 related to classification of debt extinguishment are effective for fiscal years beginning after May 15, 2002. The provisions of SFAS 145 related to lease modification are effective for transactions occurring after May 15, 2002. The Company is currently assessing the impact this statement will have on its financial statements.

CAUTIONARY NOTE

This presentation may contain forward-looking statements about the future performance of the Company, and is based on Management's assumptions and beliefs in light of information currently available. The Company assumes no obligation to update this information. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements including but not limited to: competitive practices and pricing in the food industry generally and particularly in the Company's principal markets; the Company's relationships with its employees; the terms of future collective bargaining agreements; the costs and other effects of lawsuits and administrative proceedings; the nature and extent of continued consolidation in the food industry; changes in the financial markets which may affect the Company's cost of capital or the ability to access capital; supply or quality control problems with the Company's vendors; and changes in economic conditions, which may affect the buying patterns of the Company's customers.

The Great Atlantic & Pacific Tea Company, Inc.
Statements of Consolidated Operations
(Dollars in thousands, except per share amounts)

	Fiscal 2001	Fiscal 2000 (As Restated See Note 2)	Fiscal 1999 (As Restated See Note 2)
Sales	\$10,973,315	\$10,622,866	\$10,151,334
Cost of merchandise sold	<u>(7,822,649)</u>	<u>(7,581,090)</u>	<u>(7,234,343)</u>
Gross margin	3,150,666	3,041,776	2,916,991
Store operating, general and administrative expense	<u>(3,234,796)</u>	<u>(2,975,746)</u>	<u>(2,769,909)</u>
Gain on proceeds from the demutualization of a mutual insurance company	<u>60,606</u>	<u>—</u>	<u>—</u>
(Loss) income from operations	(23,524)	66,030	147,082
Interest expense	<u>(91,722)</u>	<u>(102,488)</u>	<u>(90,445)</u>
Interest income	<u>6,972</u>	<u>6,222</u>	<u>6,218</u>
(Loss) income before income taxes and extraordinary item	(108,274)	(30,236)	62,855
Benefit from (provision for) income taxes	<u>43,590</u>	<u>10,736</u>	<u>(27,542)</u>
(Loss) income before extraordinary item	(64,684)	(19,500)	35,313
Extraordinary loss on early extinguishment of debt, net of income tax benefit of \$5,230	<u>(7,222)</u>	<u>—</u>	<u>—</u>
Net (loss) income	<u>\$ (71,906)</u>	<u>\$ (19,500)</u>	<u>\$ 35,313</u>
Net (loss) income per share – basic and diluted:			
(Loss) income before extraordinary item	\$ (1.69)	\$ (0.51)	\$ 0.92
Extraordinary loss on early extinguishment of debt	<u>(0.19)</u>	<u>—</u>	<u>—</u>
Net (loss) income per share – basic and diluted	<u>\$ (1.88)</u>	<u>\$ (0.51)</u>	<u>\$ 0.92</u>
Weighted average common shares outstanding:			
Basic	<u>38,350,616</u>	<u>38,347,216</u>	<u>38,330,379</u>
Diluted	<u>38,350,616</u>	<u>38,347,216</u>	<u>38,415,420</u>

See Notes to Consolidated Financial Statements.

The Great Atlantic & Pacific Tea Company, Inc.
Statements of Consolidated Stockholders' Equity and Comprehensive (Loss) Income
(Dollars in thousands, except share amounts)

	Common stock		Additional	Unamortized	Accumulated	Retained	Total
	Shares	Amount	paid-in capital	value of restricted stock grant	other comprehensive (loss) income	earnings	stockholders' equity
Balance at 2/27/99							
As previously reported	38,290,716	\$38,291	\$454,971	\$ —	\$(69,039)	\$413,034	\$837,257
Adjustment to retained earnings due to restatement (See Note 2)						(75,207)	(75,207)
Balance at 2/27/99							
As Restated – See Note 2	38,290,716	38,291	454,971	—	(69,039)	337,827	762,050
Net income – As Restated – See Note 2						35,313	35,313
Stock options exercised	56,500	56	1,499				1,555
Issuance of 20,000 shares of restricted common stock	20,000	20	631	(651)			—
Amortization of restricted stock grant				210			210
Comprehensive income					8,343		8,343
Cash dividends						(15,333)	(15,333)
Balance at 2/26/00							
As Restated – See Note 2	38,367,216	38,367	457,101	(441)	(60,696)	357,807	792,138
Net loss – As Restated – See Note 2						(19,500)	(19,500)
Forfeiture of restricted stock grant	(20,000)	(20)	(631)	441			(210)
Comprehensive loss					(12,112)		(12,112)
Cash dividends						(11,505)	(11,505)
Balance at 2/24/01							
As Restated – See Note 2	38,347,216	38,347	456,470	—	(72,808)	326,802	748,811
Net loss						(71,906)	(71,906)
Stock options exercised	20,412	21	283				304
Comprehensive loss					(4,221)		(4,221)
Balance at 2/23/02	<u>38,367,628</u>	<u>\$38,368</u>	<u>\$456,753</u>	<u>\$ —</u>	<u>\$(77,029)</u>	<u>\$254,896</u>	<u>\$672,988</u>

	Fiscal 2001	Fiscal 2000 (As Restated See Note 2)	Fiscal 1999 (As Restated See Note 2)
Comprehensive (loss) income			
Net (loss) income	<u>\$(71,906)</u>	<u>\$(19,500)</u>	<u>\$35,313</u>
Foreign currency translation adjustment	(5,089)	(14,802)	6,784
Minimum pension liability adjustment	(65)	2,690	1,559
Unrealized gain on securities available for sale	933	—	—
Other comprehensive (loss) income	(4,221)	(12,112)	8,343
Total comprehensive (loss) income	<u>\$(76,127)</u>	<u>\$(31,612)</u>	<u>\$43,656</u>

See Notes to Consolidated Financial Statements.

The Great Atlantic & Pacific Tea Company, Inc.
Consolidated Balance Sheets
(Dollars in thousands, except share amounts)

	February 23, 2002	February 24, 2001 (As Restated – See Note 2)
Assets		
Current assets:		
Cash and cash equivalents	\$ 168,620	\$ 131,550
Accounts receivable, net of allowance for doubtful accounts of \$8,274 and \$9,120 at February 23, 2002 and February 24, 2001, respectively	206,188	185,779
Inventories	716,083	777,380
Prepaid expenses and other current assets	121,183	103,164
Total current assets	<u>1,212,074</u>	<u>1,197,873</u>
Property:		
Land	88,154	107,893
Buildings	303,581	359,275
Equipment and leasehold improvements	2,293,655	2,388,366
Total – at cost	2,685,390	2,855,534
Less accumulated depreciation and amortization	<u>(1,053,850)</u>	<u>(1,050,279)</u>
Property owned	1,631,540	1,805,255
Property leased under capital leases	76,800	84,758
Property – net	1,708,340	1,890,013
Other assets	273,850	231,271
Total assets	<u>\$ 3,194,264</u>	<u>\$ 3,319,157</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 526	\$ 6,195
Current portion of obligations under capital leases	10,691	11,634
Accounts payable	547,113	566,482
Book overdrafts	127,079	108,448
Accrued salaries, wages and benefits	167,724	158,450
Accrued taxes	69,559	62,169
Other accruals	261,771	216,684
Total current liabilities	<u>1,184,463</u>	<u>1,130,062</u>
Long-term debt	779,440	915,321
Long-term obligations under capital leases	93,587	106,797
Other non-current liabilities	463,786	418,166
Total liabilities	<u>2,521,276</u>	<u>2,570,346</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock – no par value; authorized – 3,000,000 shares; issued – none	—	—
Common stock – \$1 par value; authorized – 80,000,000 shares; issued and outstanding – 38,367,628 and 38,347,216 shares at February 23, 2002 and February 24, 2001, respectively	38,368	38,347
Additional paid-in capital	456,753	456,470
Accumulated other comprehensive loss	(77,029)	(72,808)
Retained earnings	254,896	326,802
Total stockholders' equity	<u>672,988</u>	<u>748,811</u>
Total liabilities and stockholders' equity	<u>\$ 3,194,264</u>	<u>\$ 3,319,157</u>

See Notes to Consolidated Financial Statements.

The Great Atlantic & Pacific Tea Company, Inc.
Statements of Consolidated Cash Flows
(Dollars in thousands)

	Fiscal 2001	Fiscal 2000 (As Restated See Note 2)	Fiscal 1999 (As Restated See Note 2)
Cash Flows From Operating Activities:			
Net (loss) income	\$ (71,906)	\$ (19,500)	\$ 35,313
Adjustments to reconcile net (loss) income to cash provided by operating activities:			
Asset disposition initiative	201,067	(3,104)	14,078
Environmental charge	1,964	4,329	—
Depreciation and amortization	262,552	255,771	232,712
Deferred income tax (benefit) provision	(47,298)	(14,267)	22,957
Deferred income tax benefit from early extinguishment of debt	(5,230)	—	—
Loss (gain) on disposal of owned property and write-down of property, net	348	4,263	(2,973)
(Increase) decrease in receivables	(22,151)	40,479	(24,832)
Decrease in inventories	58,246	85	60,283
(Increase) decrease in prepaid expenses and other current assets	(39,469)	4,903	2,392
Decrease (increase) in other assets	988	(7,648)	(16,630)
(Decrease) increase in accounts payable	(12,446)	5,443	16,546
Increase in accrued expenses	18,027	13,104	4,797
(Decrease) increase in other accruals	(17,051)	(31,661)	5,878
Increase in other non-current liabilities	(7,684)	(882)	(34,246)
Other, net	5,008	2,446	(1,615)
Net cash provided by operating activities	<u>324,965</u>	<u>253,761</u>	<u>314,660</u>
Cash Flows From Investing Activities:			
Expenditures for property	(246,182)	(415,842)	(479,572)
Unrealized gain on securities available for sale	933	—	—
Proceeds from disposal of property	<u>105,808</u>	<u>150,255</u>	<u>101,319</u>
Net cash used in investing activities	<u>(139,441)</u>	<u>(265,587)</u>	<u>(378,253)</u>
Cash Flows From Financing Activities:			
Changes in short-term debt	(5,000)	(22,000)	3,900
Proceeds under revolving lines of credit	1,098,675	817,447	165,102
Payments on revolving lines of credit	(1,288,282)	(602,307)	(235,150)
Proceeds from long-term borrowings	276,964	26,981	202,110
Payments on long-term borrowings	(223,907)	(166,670)	(4,975)
Principal payments on capital leases	(11,710)	(11,252)	(11,968)
Increase (decrease) in book overdrafts	18,824	(3,298)	(49,354)
Deferred financing fees	(13,485)	(6,428)	(6,298)
Proceeds from stock options exercised	304	—	1,555
Cash dividends	—	(11,505)	(15,333)
Net cash (used in) provided by financing activities	<u>(147,617)</u>	<u>20,968</u>	<u>49,589</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(837)</u>	<u>(2,195)</u>	<u>1,797</u>
Net increase (decrease) in cash and cash equivalents	37,070	6,947	(12,207)
Cash and cash equivalents at beginning of year	<u>131,550</u>	<u>124,603</u>	<u>136,810</u>
Cash and cash equivalents at end of year	<u>\$ 168,620</u>	<u>\$ 131,550</u>	<u>\$ 124,603</u>

See Notes to Consolidated Financial Statements.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements

(Dollars in thousands, except share amounts, and where noted)

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. The Company operates retail supermarkets in the United States and Canada. The U.S. operations are mainly in the Eastern part of the U.S. and certain parts of the Midwest. See the following footnotes for additional information on the Canadian Operations: Note 5 – Wholesale Franchise Business, Note 6 – Indebtedness, Note 9 – Income Taxes, Note 10 – Retirement Plans and Benefits, and Note 13 – Operating Segments. The principal stockholder of the Company, Tengelmänn Warenhandels-gesellschaft (“Tengelmänn”), owned 56.6% of the Company’s common stock as of February 23, 2002.

Fiscal Year

The Company’s fiscal year ends on the last Saturday in February. Fiscal 2001 ended February 23, 2002, fiscal 2000 ended February 24, 2001 and fiscal 1999 ended February 26, 2000. Fiscal 2001, fiscal 2000 and fiscal 1999 were each comprised of 52 weeks.

Restatement of Previously Issued Financial Statements

As discussed in Note 2 – Restatement of Previously Issued Financial Statements, the Company has restated its financial results for fiscal 1999, fiscal 2000 and the first, second and third quarters of fiscal 2001, to correct violations of Company policy identified in a review by the Company and to reflect primarily 1) the appropriate timing for the recognition of vendor allowances, 2) an actuarially-based method of estimating self-insurance reserves, and 3) timing of recognition of sublet income associated with certain closed stores.

Revenue Recognition

Retail revenue is recognized at point-of-sale while wholesale revenue is recognized, in accordance with its terms, when goods are shipped.

Cash and Cash Equivalents

Short-term investments that are highly liquid with an original maturity of three months or less are deemed to be cash equivalents and are included in “Cash and cash equivalents” on the Company’s Consolidated Balance Sheets.

Inventories

Store inventories are valued principally at the lower of cost or market with cost determined under the retail method on a first-in, first-out basis. Warehouse and other inventories are valued primarily at the lower of cost or market with cost determined on a first-in, first-out basis. Inventories of certain acquired companies are valued using the last-in, first-out method, which was their practice prior to acquisition. See Note 4 – Inventory for additional information regarding the Company’s use of the last-in, first-out method.

Vendor Allowances

Vendor allowances when received are deferred and are recognized as a reduction of cost of merchandise sold when earned.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Advertising Costs

Advertising costs are expensed as incurred. The Company recorded advertising expense of \$136.0 million, \$146.5 million and \$138.8 million for fiscal 2001, 2000 and 1999, respectively.

Pre-opening Costs

The costs of opening new stores are expensed as incurred.

Software Costs

The Company capitalizes externally purchased software and amortizes it over three to five years. Amortization expense for fiscal 2001, 2000 and 1999 was \$3.3 million, \$1.4 million and \$0.9 million, respectively.

The Company applies the provisions of the American Institute of Certified Public Accountants' Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 requires the capitalization of certain internally generated software costs. In fiscal 2001, 2000 and 1999, the Company capitalized \$24.1 million, \$3.7 million and \$0.9 million, respectively, of such software costs. Such software is amortized over three to five years and for fiscal 2001, 2000 and 1999, the Company recorded amortization expense of \$2.7 million, \$0.7 million and \$0.5 million, respectively.

Earnings Per Share

The Company calculates earnings per share in accordance with Statement of Financial Accounting Standards ("SFAS") 128, "Earnings Per Share" ("SFAS 128"). SFAS 128 requires dual presentation of basic and diluted earnings per share ("EPS") on the face of the Statements of Consolidated Operations and requires a reconciliation of the numerators and denominators of the basic and diluted EPS calculations. Basic EPS is computed by dividing net income by the weighted average shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if options to issue common stock were exercised and converted to common stock.

The weighted average shares outstanding utilized in the basic EPS calculation were 38,350,616 for fiscal 2001, 38,347,216 for fiscal 2000 and 38,330,379 for fiscal 1999. The common stock equivalents that were added to the weighted average shares outstanding for purposes of diluted EPS were 85,041 for fiscal 1999. The common stock equivalents for fiscal 2001 and 2000 would have been 588,603 and 14,478, respectively; however, such shares were antidilutive and thus excluded from the diluted EPS calculation.

Excess of Cost over Net Assets Acquired

The excess of cost over fair value of net assets acquired is amortized on a straight-line basis between fifteen to forty years. The Company recorded amortization expense of \$1.4 million for fiscal 2001, \$1.5 million for fiscal 2000 and \$1.2 million for fiscal 1999. The book value of excess of cost over net assets acquired at February 23, 2002 and February 24, 2001 was \$32.0 million and \$34.2 million, net of accumulated amortization of \$14.0 million and \$12.5 million, respectively.

At each balance sheet date, Management reassesses the appropriateness of the goodwill balance based on forecasts of cash flows from operating results on an undiscounted basis. If the results of such comparison indicate that an impairment may exist, the Company will recognize a charge to operations at that time based upon the difference between the present value of the expected cash flows from future operating results (utilizing a discount rate equal to the Company's average cost of funds at that time)

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

and the balance sheet value. The recoverability of goodwill is at risk to the extent the Company is unable to achieve its forecast assumptions regarding cash flows from operating results. At February 23, 2002, the Company estimates that the cash flows projected to be generated by the respective businesses on an undiscounted basis should be sufficient to recover the existing goodwill balance over its remaining life.

Long-Lived Assets

The Company reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Such review is based upon groups of assets and the undiscounted estimated future cash flows from such assets to determine if the carrying value of such assets are recoverable from their respective cash flows. If such review indicates an impairment exists, the Company measures such an impairment on a discounted basis.

The Company recorded impairment losses during the years ended February 23, 2002 and February 24, 2001 related to the sale leaseback transactions (see Note 14 – Sale-Leaseback Transactions for further details) and during the year ended February 23, 2002 related to its asset disposition initiative (see Note 3 – Asset Disposition Initiative for further details).

Properties

Depreciation and amortization are calculated on the straight-line basis over the estimated useful lives of the assets. Buildings are depreciated based on lives varying from twenty to fifty years and equipment based on lives varying from three to ten years. Real property leased under capital leases is amortized over the lives of the respective leases or over their economic useful lives, whichever is less. During fiscal 2001, 2000 and 1999, the Company disposed of and/or wrote down certain assets which resulted in a pretax net loss of \$0.3 million, a pretax net loss of \$4.3 million and a pretax net gain of \$3.0 million, respectively.

Income Taxes

The Company provides deferred income taxes on temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws.

Current Liabilities

Certain accounts payable checks issued but not presented to banks frequently result in negative book balances for accounting purposes. Such amounts are classified as “Book overdrafts” on the Company’s Consolidated Balance Sheets.

The Company accrues for vacation pay. Liabilities for compensated absences of \$81.5 million and \$81.7 million at February 23, 2002 and February 24, 2001, respectively, are included in “Accrued salaries, wages and benefits” on the Company’s Consolidated Balance Sheets.

Stock-Based Compensation

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 “Accounting for Stock Issued to Employees” (“APB 25”) with pro forma disclosure of net income and earnings per share as if the fair value based method prescribed by SFAS No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”) had been applied.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Comprehensive (Loss) Income

The Company has other comprehensive (loss) income relating to foreign currency translation adjustment, minimum pension liability adjustment and an unrealized gain on securities available for sale.

Accumulated other comprehensive loss as of February 23, 2002 included foreign currency translation of \$77.8 million and an additional minimum pension liability of \$0.1 million partially offset by an unrealized gain on securities available for sale of \$0.9 million. Accumulated other comprehensive loss as of February 24, 2001 included foreign currency translation of \$72.7 million and an additional minimum pension liability of less than \$0.1 million.

Translation of Canadian Currency

Assets and liabilities denominated in Canadian currency are translated at year-end rates of exchange, and revenues and expenses are translated at average rates of exchange during the year. Gains and losses resulting from translation adjustments are accumulated as a separate component of accumulated other comprehensive loss within stockholders' equity.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Consolidated Balance Sheets include liabilities with respect to self-insured workers' compensation and general liability claims. The Company determines the required liability of such claims on a discounted basis, utilizing an actuarially-determined method which is based upon various assumptions which include, but are not limited to, the Company's historical loss experience, projected loss development factors, actual payroll, and other data. It is possible that the final resolution of some of these claims may require significant expenditures by the Company in excess of its existing reserves.

For stores to be closed that are under long-term leases, the Company records a liability for the future minimum lease payments and related costs from the date of closure to the end of the remaining lease term, net of estimated cost recoveries. The Company estimates net future cash flows based on its experience and knowledge of the market in which the store expected to be closed is located. However, these estimates project net cash flow several years into the future and are affected by variable factors such as inflation, real estate markets and economic conditions.

The Company has net operating loss carryforwards from its Canadian and U.S. operations. The Canadian portion of the net operating loss carryforwards will expire between February 2003 and February 2009 and the U.S. portion will expire between February 2019 and February 2022. The Company has assessed its ability to utilize the net operating loss carryforwards and concluded that no valuation allowance currently is required since the Company believes that it is more likely than not that the net operating loss carryforwards will be utilized either by generating taxable income or through tax planning strategies. However, this cannot be assured. Accordingly, some portions of these net operating loss carryforwards may expire before they can be utilized by the Company to reduce its income tax obligations.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

New Accounting Pronouncements Not Yet Adopted

In June 2001, the Financial Accounting Standards Board (“FASB”) issued SFAS 142, “Goodwill and Other Intangible Assets”. The provisions of this statement are required to be applied by the Company starting with fiscal 2002. This statement is required to be applied to all goodwill and other intangible assets recognized in the Company’s financial statements at the date of adoption. At that time, goodwill will no longer be amortized, but will be tested for impairment annually. Amortization expense for fiscal years 2001, 2000 and 1999 was \$1.4 million, \$1.5 million and \$1.2 million, respectively. Additionally, impairment losses for goodwill and indefinite-lived intangible assets that arise due to the initial application of this statement would be reported as resulting from a change in accounting principle. The Company intends to complete its assessment of the impact that this statement will have on its financial statements during the second quarter of fiscal 2002.

In June 2001, the FASB issued SFAS 143, “Accounting For Asset Retirement Obligations”. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is required to adopt the provisions of SFAS 143 at the beginning of fiscal 2003. The Company has determined that the adoption of this statement will not have a material impact on its financial position or results of operations.

In August 2001, the FASB issued SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. This statement requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. This statement also broadens the presentation of discontinued operations to include more disposal transactions. The provisions of this statement are required to be adopted by the Company at the beginning of fiscal 2002. The Company is currently assessing the impact this statement will have on its financial statements.

In April 2002, the FASB issued SFAS 145, “Recission of FASB Statements 4, 44 and 64, Amendment of FASB Statement 13, and Technical Corrections”. SFAS 145 rescinds the provisions of SFAS 4 that requires companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of SFAS 13 to require that certain lease modifications be treated as sale leaseback transactions. The provisions of SFAS 145 related to classification of debt extinguishment are effective for fiscal years beginning after May 15, 2002. The provisions of SFAS 145 related to lease modifications are effective for transactions occurring after May 15, 2002. The Company is currently assessing the impact this statement will have on its financial statements.

Note 2 – Restatement of Previously Issued Financial Statements

Prior to filing its 2001 Annual Report on Form 10-K, the Company discovered certain irregularities relating to the timing for the recognition of vendor allowances and the accounting for inventory. As the Company announced on May 24, 2002, it promptly commenced a review of these issues. This review caused the Company to delay filing its Annual Report on Form 10-K. As a result of this review, the Company has restated its financial statements for fiscal 1999, fiscal 2000 and the first, second and third quarters of fiscal 2001, to adjust for vendor allowances recorded prior to the accounting period in which earned and improper inventory adjustments, each in violation of Company policies. The financial statements for fiscal 1999 and 2000 include aggregate after-tax charges of \$4.6 million and \$0.4 million relating to these vendor allowances and perishable inventory adjustments, respectively.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

As summarized immediately below, the Company has concluded that the financial statements should also be restated to reflect primarily 1) the appropriate timing for the recognition of vendor allowances received, 2) an actuarially-based method of estimating self-insurance reserves, and 3) timing of recognition of sublet income associated with certain closed stores.

Vendor Allowances

The Company enters into agreements with vendors to receive cash allowances for, among other things, slotting, purchase volume, advertising, and carrying of new products. It is appropriate to record these allowances as reductions of the cost of merchandise sold during the periods in which they are earned. The Company's previous methodology for recognizing vendor allowances for certain one-year and multi-year allowance contracts resulted in inappropriate timing of the recognition of cost reductions. The Company's financial statements have been adjusted to reflect the effect of proper recognition of such allowances as reduction of cost of merchandise sold in the period earned. The impact on retained earnings as of February 27, 1999 was a reduction of \$33 million. The after-tax impact is to increase net income (loss) by \$8.2 million and \$10.2 million for fiscal 1999 and 2000, respectively.

Self-Insurance Reserves

The Company's insurance coverages result in significant self-insured risks. The Company's previous method of establishing its self-insurance reserves was not based on an appropriate methodology. Accordingly, the Company has adjusted the financial statements based on actuarially determined estimates. The impact on retained earnings as of February 27, 1999 was a reduction of \$28 million. The after-tax impact on net income (loss) is an increase of \$15.7 million for fiscal 1999 and a decrease of \$0.8 million for fiscal 2000.

Closed Store Subleases

In recording accruals for closed stores, the Company's previous methodology resulted, for certain properties, in the recognition of a portion of sublease amounts in excess of the related obligations. The Company has adjusted the financial statements to restore such excess to the closed store accruals. Such methodology had no effect on stores closed as part of the Asset Disposition Initiative discussed in Note 3 of the Company's Consolidated Financial Statements. Accordingly, the Company has adjusted the financial statements to correct the timing of the recognition of subleases. The impact on retained earnings as of February 27, 1999 was a reduction of \$14 million. The impacts on after-tax net income (loss) are decreases of \$0.1 million and \$1.5 million for fiscal 1999 and 2000, respectively.

As a result of the foregoing, the Company has restated its financial statements from amounts previously reported. The following is a summary of the significant effects of the restatement on the Company's financial statements for fiscal years 2000 and 1999:

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

	As Previously Reported	Adjustments	As Restated
<u>Fiscal 2000</u>			
Statement of Consolidated Operations			
Cost of merchandise sold	\$(7,594,450)	\$ 13,360	\$(7,581,090)
Gross margin	3,028,416	13,360	3,041,776
Store operating, general and administrative expense	(2,978,223)	2,477	(2,975,746)
Income from operations	50,193	15,837	66,030
Interest expense	(96,088)	(6,400)	(102,488)
(Loss) income before income taxes	(39,673)	9,437	(30,236)
Benefit from (provision for) income taxes	14,605	(3,869)	10,736
Net (loss) income	(25,068)	5,568	(19,500)
Net (loss) income – basic and diluted	\$ (0.65)	\$ 0.14	\$ (0.51)
Consolidated Balance Sheets			
Accounts receivable	\$ 183,382	\$ 2,397	\$ 185,779
Inventories	783,758	(6,378)	777,380
Total current assets	1,201,854	(3,981)	1,197,873
Other assets	217,936	13,335	231,271
Total assets	3,309,803	9,354	3,319,157
Other accruals	194,106	22,578	216,684
Total current liabilities	1,107,484	22,578	1,130,062
Other non-current liabilities	382,904	35,262	418,166
Total liabilities	2,512,506	57,840	2,570,346
Retained earnings	375,288	(48,486)	326,802
Total stockholders' equity	797,297	(48,486)	748,811
Total liabilities and stockholders' equity	3,309,803	9,354	3,319,157
<u>Fiscal 1999</u>			
Statement of Consolidated Operations			
Cost of merchandise sold	\$(7,243,718)	\$ 9,375	\$(7,234,343)
Gross margin	2,907,616	9,375	2,916,991
Store operating, general and administrative expense	(2,802,786)	32,877	(2,769,909)
Income from operations	104,830	42,252	147,082
Interest expense	(84,045)	(6,400)	(90,445)
Income before income taxes	27,003	35,852	62,855
Provision for income taxes	(12,843)	(14,699)	(27,542)
Net income	14,160	21,153	35,313
Net income – basic and diluted	\$ 0.37	\$ 0.55	\$ 0.92
Retained Earnings – February 27, 1999	\$ 413,034	\$(75,207)	\$ 337,827

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

In addition to the above tables, see Note 18 – Summary of Quarterly Results for the effect of the restatement on the fiscal 2000 and 2001 quarters.

Note 3 – Asset Disposition Initiative

In May 1998, the Company initiated an assessment of its business operations in order to identify the factors that were impacting the performance of the Company. As a result of this assessment, in fiscal 1998 and 1999, the Company announced a plan to close two warehouse facilities and a coffee plant in the U.S., a bakery plant in Canada and 166 stores including the exit of the Richmond, Virginia and Atlanta, Georgia markets.

As of February 23, 2002, the Company had closed all stores and facilities related to this phase of the initiative. The Company paid \$29 million of the total net severance charges from the time of the original charges through February 23, 2002, which resulted from the termination of approximately 3,400 employees. The remaining severance liability primarily relates to future obligations for early withdrawals from multi-employer union pension plans.

The following table summarizes the activity related to the aforementioned charges over the last three fiscal years:

	Store Occupancy	Fixed Assets	Severance and Benefits	Facilities Occupancy	Total
Reserve Balance at Feb. 27, 1999	\$114,532	\$ —	\$ 10,066	\$ 4,038	\$128,636
Addition ⁽¹⁾	15,730	—	17,060	3,188	35,978
Utilization	(4,614) ⁽³⁾	(295)	(19,626)	(3,659)	(28,194)
Adjustment ⁽²⁾	(22,195)	295	—	—	(21,900)
Reserve Balance at Feb. 26, 2000	103,453	—	7,500	3,567	114,520
Addition ⁽¹⁾	5,062	—	—	—	5,062
Utilization ⁽⁴⁾	(25,654)	—	(4,779)	(463)	(30,896)
Adjustment ⁽²⁾	—	—	—	(3,104)	(3,104)
Reserve Balance at Feb. 24, 2001	82,861	—	2,721	—	85,582
Addition ⁽¹⁾	3,818	—	—	—	3,818
Utilization ⁽⁴⁾	(23,302)	—	(544)	—	(23,846)
Adjustment	—	—	—	—	—
Reserve Balance at Feb. 23, 2002	<u>\$ 63,377</u>	<u>\$ —</u>	<u>\$ 2,177</u>	<u>\$ —</u>	<u>\$ 65,554</u>

- (1) The additions to store occupancy of \$5.1 million and \$3.8 million during fiscal 2000 and 2001 represent the present value of accrued interest related to lease obligations. The fiscal 1999 addition represents an increase to the store occupancy reserve for the present value of accrued interest of \$7.4 million, additional severance cost of \$11.5 million and the cost of exiting the Atlanta market (including store occupancy of \$8.3 million, severance of \$5.6 million and facilities costs of \$3.2 million).

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

- (2) At each balance sheet date, Management assesses the adequacy of the reserve balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. As a result, in the third quarter of fiscal 1999, the Company recorded a net reduction in "Store operating, general and administrative expense" of \$21.9 million to reverse a portion of the original charge. This amount represents a \$22.2 million reduction in "Store operating, general and administrative expense" for lower store occupancy costs resulting primarily from earlier than anticipated lease terminations and subleases. The credit is partially offset by \$0.3 million of additional fixed asset write-downs resulting from lower than anticipated proceeds from the sale of fixed assets. Additionally, in fiscal 2000, the Company recorded a net reduction in "Store operating, general and administrative expense" of \$3.1 million to further reverse a portion of the charge. This reversal is primarily a result of a change in estimate resulting from the sale of one of the Company's warehouses sold during the first quarter of fiscal 2000.
- (3) Store occupancy utilization for fiscal 1999 is comprised of \$29.6 million of lease and other occupancy payments for the period, net of \$25.0 million of net proceeds on the assignment of leases which was considered in determining the original charge recorded during fiscal 1998.
- (4) Store occupancy utilization of \$25.7 million and facilities occupancy of \$0.5 million for fiscal 2000 and store occupancy utilization of \$23.3 million for fiscal 2001 represent lease and other occupancy payments made during those periods.

At February 23, 2002, approximately \$9.9 million of the reserve was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on the Company's Consolidated Balance Sheets.

Included in the Statements of Consolidated Operations are the operating results of the 166 underperforming stores which the Company has exited. The operating results of these stores are as follows:

	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>Fiscal 1999</u>
Sales	<u>\$ 197</u>	<u>\$ 678</u>	<u>\$200,208</u>
Operating loss	<u>\$(108)</u>	<u>\$(139)</u>	<u>\$(30,572)</u>

During the third quarter of fiscal 2001, the Company's Board of Directors approved a plan resulting from Management's review of the performance and potential of each of the Company's businesses and individual stores. At the conclusion of this review, the Company determined that certain underperforming operations, including 39 stores (30 in the United States and 9 in Canada) and 3 warehouses should be closed and/or sold, and certain administrative streamlining should take place. As a result of these decisions, the Company announced on November 14, 2001 that it would incur costs of approximately \$200 – \$215 million pretax (\$115 – \$125 million after tax) through the third quarter of fiscal 2002. Of this amount, \$193.5 million pretax (\$112.3 million after tax) was included in the Statements of Consolidated Operations for fiscal 2001. The components of this net pretax charge were as follows:

- \$180.3 million of costs to close the stores and warehouses and perform certain administrative streamlining, of which \$63.5 million related to the present value of future occupancy obligations, \$85.0 million related to the write-down of fixed assets, \$24.3 million related to severance for store and administrative personnel and \$7.5 million related to other miscellaneous items;
- \$20.8 million of costs to discontinue development of 4 potential stores of which \$16.9 million related to the present value of future occupancy obligations, \$3.5 million related to fixed asset write-offs and \$0.4 million related to occupancy costs incurred in the current period; and
- \$7.6 million in gains on the sale of other properties and equipment, primarily land and buildings.

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Notes to Consolidated Financial Statements – Continued

Of this net pretax charge, \$3.9 million was included in “Cost of merchandise sold” and \$189.6 million was included in “Store operating, general and administrative expense” in the Statements of Consolidated Operations for fiscal 2001.

To the extent fixed assets included in the items noted above could be used in other continuing operations, the Company will transfer those assets as needed. Fixed assets that the Company cannot transfer to other operations will be scrapped. Accordingly, the write-down recorded during fiscal 2001 was based on expected transfers.

Included in the \$193.5 million net charges recorded during fiscal 2001, there were, and will continue to be, other charges related to the plan which could not be accrued at February 23, 2002 because they did not meet the criteria for accrual under EITF 94-3 “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit Activity (Including Certain Costs Incurred in a Restructuring)”. Such costs have been, and will continue to be, expensed as incurred while the asset disposition is being executed. During fiscal 2001, these costs amounted to \$8.7 million, which were primarily related to non-accruable closing costs and inventory markdowns. These costs are excluded from the table on the following page which represents only the reserve recorded on the balance sheet. Also included in the \$193.5 million net charges was a reversal of previously accrued severance and benefits of \$0.6 million related to a reduction in the severance payments required to be made to certain store employees in Canada in accordance with Ontario provincial law.

The following table summarizes the activity related to the aforementioned reserve recorded on the Consolidated Balance Sheets since the announcement of the charge in November 2001:

	Occupancy	Severance and Benefits	Goodwill/ Fixed Assets	Total
Original Charge	\$80,456	\$23,435	\$ 81,519	\$185,410
Addition ⁽¹⁾	1,673	—	—	1,673
Utilization ⁽²⁾	(1,806)	(2,891)	(81,519)	(86,216)
Adjustment ⁽³⁾	—	(584)	—	(584)
Reserve Balance at February 23, 2002	<u>\$80,323</u>	<u>\$19,960</u>	<u>\$ —</u>	<u>\$100,283</u>

- (1) The addition to occupancy of \$1.7 million represents the present value of accrued interest related to lease obligations.
- (2) Occupancy utilization of \$1.8 million represents vacancy related payments for closed locations. Severance utilization of \$2.9 million represents payments made to terminated employees during the period. Goodwill/fixed asset utilization of \$81.5 million represents the write-off of fixed assets of the operations to be discontinued and the write-off of goodwill related to the Barn warehouse in Canada that was deemed to be impaired.
- (3) At each balance sheet date, Management assesses the adequacy of the reserve balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. As a result, the Company recorded an adjustment to severance and benefits of \$0.6 million related to a reduction in the severance payments required to be made to certain store employees in Canada. Under Ontario provincial law, employees to be terminated as part of a mass termination are entitled to receive compensation, either worked or paid as severance, for a set period of time after the official notice date. Since such closures took place later than originally expected, less time remained in the aforementioned guarantee period.

As of February 23, 2002, the Company paid approximately \$2.9 million of the total severance charge recorded which resulted from the termination of approximately 850 employees. The remaining individual severance payments will be paid by the end of fiscal 2003.

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Notes to Consolidated Financial Statements – Continued

At February 23, 2002, approximately \$34.4 million of the reserve was included in “Other accruals” and the remaining amount was included in “Other non-current liabilities” on the Company’s Consolidated Balance Sheets.

Included in the Statements of Consolidated Operations for fiscal 2001, 2000 and 1999 are the sales and operating results of the 39 stores that were identified for closure as part of this asset disposition. The results of these operations are as follows:

	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>Fiscal 1999</u>
Sales	<u>\$266,802</u>	<u>\$319,812</u>	<u>\$253,670</u>
Operating loss	<u>\$ (24,376)</u>	<u>\$ (24,332)</u>	<u>\$ (10,802)</u>

Based upon current available information, Management evaluated the reserve balances as of February 23, 2002 of \$65.6 for the 1998 phase of the asset disposition initiative and \$100.3 million for the 2001 phase of the asset disposition initiative and has concluded that they are adequate. The Company will continue to monitor the status of the vacant properties and adjustments to the reserve balances may be recorded in the future, if necessary.

Note 4 – Inventory

Approximately 12% of the Company’s inventories are valued using the last-in, first-out (“LIFO”) method at both February 23, 2002 and February 24, 2001. Such inventories would have been \$18.6 million and \$18.1 million higher at February 23, 2002 and February 24, 2001, respectively, if the retail and first-in, first-out methods were used. The Company recorded a LIFO charge of \$0.5 million in fiscal 2001 and \$0.9 million in fiscal 1999 as compared to a LIFO credit of \$1.5 million in fiscal 2000. Liquidation of LIFO layers in the periods reported did not have a significant effect on the results of operations.

Note 5 – Wholesale Franchise Business

The Company serviced 67 franchised stores as of February 23, 2002 and 68 franchised stores as of February 24, 2001. These franchised stores, all of which are located in Canada, are required to purchase inventory exclusively from the Company which acts as a wholesaler to the franchisees. During fiscal 2001, 2000 and 1999, the Company had wholesale sales to these franchised stores of \$677 million, \$631 million and \$523 million, respectively. A majority of the franchised stores were converted from Company operated supermarkets. The Company subleases the stores and leases the equipment in the stores to the franchisees. The Company also provides merchandising, advertising, accounting and other consultative services to the franchisees for which it receives a nominal fee which mainly represents the reimbursements of costs incurred to provide such services.

The Company holds as assets inventory notes collateralized by the inventory in the stores and equipment lease receivables collateralized by the equipment in the stores. The current portion of the inventory notes and equipment leases, net of allowance for doubtful accounts, amounting to approximately \$2.8 million and \$3.7 million, were included in “Accounts receivable” on the Company’s Consolidated Balance Sheets at February 23, 2002 and February 24, 2001, respectively. The long-term portion of the inventory notes and equipment leases, net of allowance for doubtful accounts, amounting

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Notes to Consolidated Financial Statements – Continued

to approximately \$44.8 million and \$55.3 million, were included in “Other assets” on the Company’s Consolidated Balance Sheets at February 23, 2002 and February 24, 2001, respectively.

The repayment of the inventory notes and equipment leases are dependent upon positive operating results of the stores. To the extent that the franchisees incur operating losses, the Company establishes an allowance for doubtful accounts. The Company continually assesses the sufficiency of the allowance on a store by store basis based upon the operating results and the related collateral underlying the amounts due from the franchisees. In the event of default by a franchisee, the Company reserves the option to reacquire the inventory and equipment at the store and operate the franchise as a corporate owned store.

Included below are the amounts due to the Company for the next five years and thereafter from the franchised stores for equipment leases and inventory notes.

<u>Fiscal</u>	
2002	\$ 5,981
2003	9,175
2004	8,343
2005	8,984
2006	8,505
2007 and thereafter	<u>24,570</u>
	65,558
Less interest portion	<u>(17,992)</u>
Due from franchise business	<u>\$ 47,566</u>

For fiscal 2001, 2000 and 1999, approximately \$1 million, \$15 million and \$18 million, respectively, of the franchise business notes relate to equipment leases which were non-cash transactions and, accordingly, have been excluded from the Statements of Consolidated Cash Flows.

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Notes to Consolidated Financial Statements – Continued

Note 6 – Indebtedness

Debt consists of the following:

	February 23, 2002	February 24, 2001
9.375% Notes, due August 1, 2039	\$200,000	\$200,000
9.125% Senior Notes, due December 15, 2011	275,000	—
7.75% Notes, due April 15, 2007	280,000	300,000
7.70% Senior Notes, due January 15, 2004	22,100	200,000
Fair value adjustment of hedged debt	992	—
Mortgages and Other Notes, due 2002 through 2018 (average interest rates at year end of 7.62% and 8.38%, respectively)	3,387	28,658
U.S. Bank Borrowings	—	194,607
Less unamortized discount on 7.75% Notes	<u>(1,513)</u>	<u>(1,749)</u>
	779,966	921,516
Less current portion	<u>(526)</u>	<u>(6,195)</u>
Long-term debt	<u>\$779,440</u>	<u>\$915,321</u>

On December 14, 2001, the Company issued \$275 million 9 $\frac{3}{4}$ % Senior Notes due December 15, 2011. These notes pay interest semi-annually on June 15 and December 15 and are callable beginning December 15, 2006. The Company used the proceeds from the issuance of these notes to repay approximately \$178 million of the total \$200 million 7.70% Senior Notes due January 15, 2004 and for general corporate purposes including repayment of borrowings under the Company's secured revolving credit agreement. The repayment of approximately \$178 million of the 7.70% Senior Notes due January 15, 2004 took place in the form of a tender offer whereby the Company paid a 6.25% premium to par. In addition, the Company repurchased in the open market \$20 million of its 7.75% Notes due April 15, 2007. The net cost of this tender and open market repurchase resulted in an extraordinary loss due to the early extinguishment of debt of \$7.2 million after tax (\$12.5 million pretax). The Company has the right to make additional repurchases and intends to do so from time to time in the future.

From time to time, the Company may enter hedging agreements in order to manage risks incurred in the normal course of business including the managing of interest expense and exposure to fluctuations in foreign exchange rates. These agreements may include interest rate swaps, locks, caps, floors and collars as well as the use of foreign currency swaps and forward exchange contracts.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

On January 4, 2002, the Company entered into an interest rate hedging agreement with a commercial bank with a notional amount of \$50 million maturing on April 15, 2007. This hedging agreement was designated as a fair value hedging instrument and effectively converts a portion of the Company's 7.75% Notes due April 15, 2007 from fixed rate debt to floating rate debt. There were no ineffective changes in fair value of this hedging agreement. For the fiscal year ended February 23, 2002, this hedging agreement reduced borrowing costs by \$0.2 million and had a fair value of \$1.0 million.

On April 25, 2002 and April 26, 2002, the Company entered into additional interest rate hedging agreements with notional amounts totaling \$100 million maturing on April 15, 2007. These hedging agreements effectively convert an additional portion of the Company's 7.75% Notes due April 15, 2007 from fixed rate debt to floating rate debt. There were no ineffective changes in fair value of these hedging agreements.

The Company has a \$425 million secured revolving credit agreement (the "Secured Credit Agreement") expiring December 31, 2003, with a syndicate of lenders, enabling it to borrow funds on a revolving basis sufficient to refinance short-term borrowings and provide working capital as needed. This agreement is secured primarily by inventory and company-owned real estate. The Secured Credit Agreement was comprised of a U.S. credit agreement amounting to \$340 million and a Canadian credit agreement amounting to \$85 million (C\$136 million at February 23, 2002). As of February 23, 2002, the Company had no borrowings under the Secured Credit Agreement. Accordingly, as of February 23, 2002, after reducing availability for outstanding letters of credit and inventory requirements, the Company had \$367 million available under the Secured Credit Agreement. Borrowings under the agreement bear interest based on the variable LIBOR pricing. On March 21, 2002 and April 23, 2002, the Company amended the Secured Credit Agreement in order to allow for, among other things, additional debt repayments, the ability to enter additional interest rate hedging agreements and an increase in the amount of letters of credit available under the agreement. In addition, \$385 million of the initial \$425 million of loan commitments under the original facility scheduled to expire in December 2003 has been extended for an additional 18 months and will now expire in June 2005.

On November 1, 2000, the Company's Canadian subsidiary, The Great Atlantic & Pacific Company of Canada, Limited, repaid its outstanding \$75 million 5 year Notes denominated in U.S. dollars. The repayment of these Notes was funded by the Unsecured Credit Agreement at an average rate of 6.55% during fiscal 2000.

As of February 23, 2002 the Company had no borrowings under uncommitted lines of credit compared to borrowings of \$5 million at February 24, 2001.

The Company's loan agreements and certain of its notes contain various financial covenants which require, among other things, minimum fixed charge coverage and maximum levels of leverage and capital expenditures. At February 23, 2002, the Company was in compliance with all of its covenants.

As a result of its delayed filing of the Annual Report on Form 10-K as described in Note 2 of the Company's Consolidated Financial Statements, the Company was not in compliance with its reporting covenant and therefore became unable to draw upon the Secured Credit Agreement. On June 14, 2002 the Company received a waiver from its lenders allowing it to borrow up to \$50 million under the Secured Credit Agreement through July 29, 2002. The filing of this Annual Report on Form 10-K cures said covenant violation. The filing delay has also caused a covenant violation under the indenture covering the Company's debt. Such violation is cured upon filing.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

The net book value of real estate pledged as collateral for all mortgage loans amounted to approximately \$1.0 million at February 23, 2002 and \$4.5 million at February 24, 2001.

The Company has active Registration Statements dated January 23, 1998 and June 23, 1999, allowing it to offer up to \$75 million of debt and equity securities as of February 23, 2002 at terms determined by market conditions at the time of sale.

Maturities for the next five fiscal years and thereafter are: 2002 – \$0.5 million; 2003 – \$1.2 million; 2004 – \$22.1 million; 2005 – \$0.1 million; 2006 – \$0.1 million; 2007 and thereafter – \$757.5 million. Interest payments on indebtedness were approximately \$60 million for fiscal 2001, \$80 million for fiscal 2000 and \$66 million for fiscal 1999.

Note 7 – Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments are as follows:

	February 23, 2002		February 24, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Interest Rate Swap	\$ 992	\$ 992	\$ —	\$ —
9.375% Notes, due August 1, 2039	(200,000)	(190,800)	(200,000)	(161,280)
9.125% Senior Notes, due December 15, 2011	(275,000)	(283,250)	—	—
7.75% Notes, due April 15, 2007	(279,479)	(272,492)	(298,251)	(217,723)
7.70% Senior Notes, due January 15, 2004	(22,100)	(22,874)	(200,000)	(160,000)
Mortgages and Other Notes, due 2002 through 2018	(3,387)	(3,387)	(28,658)	(28,658)
U.S. Bank Borrowings	—	—	(194,607)	(194,607)

Fair value for the public debt securities is based on quoted market prices. As of February 23, 2002 and February 24, 2001, the carrying values of cash and cash equivalents, accounts receivable and accounts payable approximated fair values due to the short-term maturities of these instruments.

Note 8 – Lease Obligations

The Company operates primarily in leased facilities. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. In addition, the Company also leases some store equipment and trucks. The majority of the leases contain escalation clauses relating to real estate tax increases and certain store leases provide for increases in rentals when sales exceed specified levels.

The Consolidated Balance Sheets include the following:

	February 23, 2002	February 24, 2001
Real property leased under capital leases	\$ 193,568	\$ 205,409
Accumulated amortization	(116,768)	(120,651)
Net property leased under capital leases	<u>\$ 76,800</u>	<u>\$ 84,758</u>

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

During fiscal 2001, the Company did not enter into any new capital leases. During fiscal 2000 and 1999, the Company entered into new capital leases totaling \$7 million and \$16 million, respectively. These capital lease amounts are non-cash transactions and, accordingly, have been excluded from the Statements of Consolidated Cash Flows. Interest paid as part of capital lease obligations was approximately \$13 million in fiscal 2001 and \$14 million in both fiscal 2000 and 1999.

Rent expense for operating leases during the last three fiscal years consisted of the following:

	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>Fiscal 1999</u>
Minimum rentals	\$249,509	\$219,113	\$194,158
Contingent rentals	4,126	3,777	3,780
Total rent expense	<u>\$253,635</u>	<u>\$222,890</u>	<u>\$197,938</u>

Future minimum annual lease payments for capital leases and noncancelable operating leases in effect at February 23, 2002 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities for which reserves have previously been established. In addition, the Company subleases 67 stores to the franchise business. Included in the operating lease column in the table below are the rental payments to be made by the Company partially offset by the rental income to be received from the franchised stores.

<u>Fiscal</u>	<u>Capital Leases Real Property</u>	<u>Operating Leases</u>
2002	\$ 22,267	\$ 248,979
2003	20,075	242,185
2004	18,593	228,769
2005	14,577	221,361
2006	13,038	213,149
2007 and thereafter	124,961	2,196,357
	213,511	<u>\$3,350,800</u>
Less executory costs	(692)	
Net minimum rentals	212,819	
Less interest portion	(108,541)	
Present value of net minimum rentals	<u>\$ 104,278</u>	

During fiscal 2000 an agreement was entered into which provided financing for software purchases and hardware leases up to \$71 million in the aggregate primarily relating to the business process initiative. At that time, software purchases and hardware leases were to be financed at an effective rate of 8.49% per annum, were to occur from time to time through 2004 and were to have equal monthly payments of \$1.4 million. In May 2001, the agreement was amended to include only hardware leases. The amounts previously funded relating to software purchases of approximately \$29 million were to be repaid over the next several months. Accordingly, as of February 23, 2002, substantially all of this balance had been repaid. Additionally, the monthly payment amount was amended to reflect expected utilization related to hardware leases. As of February 23, 2002, approximately \$30 million had been

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

funded related to hardware leases. Future payments related to these leases are included in the future minimum annual lease payments table on the previous page. There will be no further funding under this agreement. The leasing of the hardware under this agreement is being accounted for as an operating lease in accordance with SFAS No. 13, "Accounting for Leases".

Note 9 – Income Taxes

The components of (loss) income before income taxes and extraordinary item are as follows:

	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>Fiscal 1999</u>
United States	\$(142,468)	\$(65,331)	\$35,775
Canadian	<u>34,194</u>	<u>35,095</u>	<u>27,080</u>
Total	<u>\$(108,274)</u>	<u>\$(30,236)</u>	<u>\$62,855</u>

The benefit from (provision for) income taxes before extraordinary item consists of the following:

	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>Fiscal 1999</u>
Current:			
Federal	\$ —	\$ —	\$ (872)
Canadian	(708)	(531)	(710)
State and local	<u>(3,000)</u>	<u>(3,000)</u>	<u>(3,003)</u>
	<u>(3,708)</u>	<u>(3,531)</u>	<u>(4,585)</u>
Deferred:			
Federal	44,807	21,342	(11,512)
Canadian	(15,535)	(16,083)	(12,045)
State and local	<u>18,026</u>	<u>9,008</u>	<u>600</u>
	<u>47,298</u>	<u>14,267</u>	<u>(22,957)</u>
Benefit from (provision for) income taxes	<u>\$ 43,590</u>	<u>\$ 10,736</u>	<u>\$(27,542)</u>

The deferred income tax benefit (provision) resulted primarily from the annual change in temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws, and net operating tax loss carryforwards.

The deferred tax benefit recorded for U.S. operations of approximately \$63 million mainly relates to book and tax differences of the asset disposition initiative recorded in fiscal 2001. Included in the Canadian amount for fiscal 2001 is an adjustment relating to a reduction in the Canadian federal corporate income tax rate. This new legislation, which was enacted during the first half of fiscal 2001, will reduce the Canadian federal corporate income tax rate by a total of 7% from 28% to 21% by January 1, 2004. The tax benefit for fiscal 2001 was decreased by \$1.2 million to reflect the reduction in value of the deferred Canadian tax asset (primarily relating to net operating loss carryforwards) resulting from the lower rates.

During fiscal 2001, the Ontario government enacted corporate income tax rate changes, gradually reducing the rate from 14% to 8% by January 1, 2005. This Canadian tax rate reduction did not have a significant impact on the financial statements for fiscal 2001.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

The Company has elected to permanently reinvest earnings of the Canadian subsidiary. Accordingly, the Company does not provide for taxes associated with Canada's undistributed earnings.

As of February 23, 2002, the Company had net operating tax loss carryforwards of approximately \$29 million from the Canadian operations and \$191 million from the U.S. operations. On March 9, 2002, U.S. legislation was enacted that extended the 2 year carryback provisions to 5 years to offset prior taxable income. As a result of this legislation, the Company was able to carryback approximately \$110 million of the U.S. net operating tax loss to prior years. The Canadian portion of the net operating loss carryforwards will expire between February 2003 and February 2009 and the U.S. portion will expire between February 2019 and February 2022. The Company has assessed its ability to utilize the net operating loss carryforwards and concluded that no valuation allowance currently is required since the Company believes that it is more likely than not that the net operating loss carryforwards will be utilized either by generating taxable income or through tax planning strategies. However, this cannot be assured. Accordingly, some portions of these net operating loss carryforwards may expire before they can be utilized by the Company to reduce its income tax obligations.

A reconciliation of income taxes at the 35% federal statutory income tax rate for fiscal 2001, 2000 and 1999 to income taxes as reported is as follows:

	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>Fiscal 1999</u>
Income tax benefit (provision) computed at federal statutory income tax rate	\$37,899	\$10,583	\$(21,999)
State and local income taxes, net of federal tax benefit	9,912	3,905	(1,563)
Tax rate differential relating to Canadian operations	(4,276)	(4,330)	(3,278)
Goodwill and other permanent differences	<u>55</u>	<u>578</u>	<u>(702)</u>
Income tax benefit (provision), as reported	<u>\$43,590</u>	<u>\$10,736</u>	<u>\$(27,542)</u>

Income tax payments, net of refunds, for fiscal 2001, 2000 and 1999 were approximately \$0.2 million, \$2 million and \$6 million, respectively.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

The components of net deferred tax assets (liabilities) are as follows:

	February 23, 2002	February 24, 2001
Current assets:		
Insurance reserves	\$ 26,481	\$ 27,073
Other reserves and accrued benefits	47,299	40,435
Accrued postretirement and postemployment benefits	756	1,111
Lease obligations	899	1,198
Pension obligations	2,030	1,776
Miscellaneous	4,290	4,505
	<u>81,755</u>	<u>76,098</u>
Current liabilities:		
Inventories	(8,815)	(9,482)
Health and welfare	(8,840)	(9,631)
Miscellaneous	(2,677)	(2,751)
	<u>(20,332)</u>	<u>(21,864)</u>
Deferred income taxes included in prepaid expenses and other current assets	<u>\$ 61,423</u>	<u>\$ 54,234</u>
Non-current assets:		
Isosceles investment	\$ —	\$ 42,617
Alternative minimum tax	7,500	7,500
Other reserves including asset disposition charges	113,880	66,503
Lease obligations	9,473	13,193
Net operating loss carryforwards	168,345	121,288
Insurance reserves	15,539	17,748
Accrued postretirement and postemployment benefits	25,938	28,259
Pension obligations	9,494	9,503
Step rents	22,095	19,526
Miscellaneous	4,742	768
	<u>377,006</u>	<u>326,905</u>
Non-current liabilities:		
Fixed assets	(266,159)	(254,907)
Pension obligations	(16,747)	(23,205)
Miscellaneous	(2,430)	(2,463)
	<u>(285,336)</u>	<u>(280,575)</u>
Net non-current deferred income tax asset included in other assets	<u>\$ 91,670</u>	<u>\$ 46,330</u>

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Note 10 – Retirement Plans and Benefits

Defined Benefit Plans

The Company provides retirement benefits to certain non-union and union employees under various defined benefit plans. The Company's defined benefit pension plans are non-contributory and benefits under these plans are generally determined based upon years of service and, for salaried employees, compensation. The Company funds these plans in amounts consistent with the statutory funding requirements.

The components of net pension (income) cost were as follows:

	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>Fiscal 1999</u>
Service cost	\$ 8,679	\$ 8,017	\$ 16,153
Interest cost	19,045	19,192	26,300
Expected return on plan assets	(27,116)	(25,429)	(34,890)
Amortization of unrecognized net asset	(762)	(1,255)	(1,194)
Amortization of unrecognized net prior service cost	584	910	1,240
Amortization of unrecognized net actuarial (gain) loss	(2,000)	(1,432)	730
Curtailments and settlements	—	668	1,205
Termination benefits and other	569	—	—
Net pension (income) cost	<u>\$ (1,001)</u>	<u>\$ 671</u>	<u>\$ 9,544</u>

The Company's U.S. defined benefit pension plans are accounted for on a fiscal year basis, while the Company's Canadian defined benefit pension plans are accounted for on a calendar year basis. The majority of plan assets are invested in listed stocks and bonds. The following tables set forth the change in benefit obligations and change in plan assets for fiscal 2001 and 2000 for the Company's defined benefit plans:

<u>Change in Benefit Obligation</u>	<u>2001</u>	<u>2000</u>
Benefit obligation – beginning of year	\$274,619	\$ 393,614
Service cost	8,679	8,017
Interest cost	19,045	19,192
Actuarial loss	14,649	12,467
Benefits paid	(21,712)	(23,399)
Amendments	794	29
Curtailments and settlements	—	(122,633)
Termination benefits	361	—
Effect of exchange rate	(5,555)	(12,668)
Benefit obligation – end of year	<u>\$290,880</u>	<u>\$ 274,619</u>

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Change in Plan Assets

Plan assets at fair value – beginning of year	\$346,780	\$ 464,438
Actual return on plan assets	13,321	53,441
Company contributions	2,891	5,218
Benefits paid	(21,712)	(23,399)
Curtailments and settlements	—	(136,981)
Effect of exchange rate	(6,910)	(15,937)
Plan assets at fair value – end of year	<u>\$334,370</u>	<u>\$ 346,780</u>

Amounts recognized on the Company's Consolidated Balance Sheets consisted of the following:

	2001	2000
Plan assets in excess of projected benefit obligation	\$ 43,490	\$ 72,161
Unrecognized net transition asset	(1,068)	(1,881)
Unrecognized prior service cost	2,558	2,419
Unrecognized net actuarial gain	(25,967)	(56,231)
Interim contributions between calendar and fiscal year end	—	268
Total recognized on the Consolidated Balance Sheets	<u>\$ 19,013</u>	<u>\$ 16,736</u>
Prepaid benefit cost	\$ 47,805	\$ 44,592
Accrued benefit liability	(29,963)	(28,036)
Intangible asset	995	116
Accumulated other comprehensive loss	102	38
Tax benefit	74	26
Total recognized on the Consolidated Balance Sheets	<u>\$ 19,013</u>	<u>\$ 16,736</u>

Plans with accumulated benefit obligation in excess of plan assets consisted of the following:

	2001	2000
Accumulated benefit obligation	\$45,192	\$21,998
Projected benefit obligation	\$45,894	\$22,705
Plan assets at fair value	\$19,709	\$ 275

The prepaid pension asset is included in "Other assets" on the Consolidated Balance Sheets while the pension liability is included in "Accrued salaries, wages and benefits" and "Other non-current liabilities".

At February 23, 2002 and February 24, 2001, the Company's additional minimum pension liability for its defined benefit plans exceeded the aggregate of the unrecognized prior service costs and the net transition obligation. Accordingly, stockholders' equity was reduced by \$0.1 million and less than \$0.1 million, respectively.

During the year ended February 25, 1995, the Company's Canadian subsidiary and the United Food & Commercial Workers International Union, Locals 175 and 633, entered into an agreement that resulted in the amalgamation of three of the Company's Canadian defined benefit pension plans with the Canadian Commercial Workers Industry Pension Plan ("CCWIPP"), retroactive to July 1, 1994. The agreement was subject to the approval of the CCWIPP trustees and the appropriate regulatory bodies.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

During the first quarter of fiscal 2000, the Company received final approval of the agreement. Under the terms of this agreement and as reflected in the above tables, for the year ended February 24, 2001, CCWIPP assumed the assets and defined benefit liabilities of the three pension plans. Further, the Company is required to make defined contributions to CCWIPP based upon hours worked by employees who are members of CCWIPP and to the extent assets transferred exceeded liabilities assumed, the Company received a funding holiday by CCWIPP for such defined contributions. As a result of this transfer, during the first quarter of fiscal 2000, the Company recorded a \$0.4 million net expense and a \$2.7 million adjustment to the minimum pension liability.

Actuarial assumptions used to determine year-end plan status are as follows:

	2001		2000	
	U.S.	Canada	U.S.	Canada
Weighted average discount rate	7.00%	6.50%	7.50%	7.00%
Weighted average rate of compensation increase	4.00%	4.00%	4.50%	4.00%
Expected long-term rate of return on plan assets	8.00%	8.50%	7.50-8.50%	8.50%

The impact of the changes in the actuarial assumptions has been reflected in the funded status of the pension plans and the Company believes that such changes will not have a material effect on net pension cost for fiscal 2002.

Defined Contribution Plans

The Company maintains a defined contribution retirement plan to which the Company contributes an amount equal to 4% of eligible participants' salaries and a savings plan to which eligible participants may contribute a percentage of eligible salary. The Company contributes to the savings plan based on specified percentages of the participants' eligible contributions. Participants become fully vested in the Company's contributions after 5 years of service. The Company's contributions charged to operations for both plans were approximately \$12.3 million, \$11.3 million and \$10.8 million in fiscal years 2001, 2000 and 1999, respectively.

Multi-employer Union Pension Plans

The Company participates in various multi-employer union pension plans which are administered jointly by management and union representatives and which sponsor most full-time and certain part-time union employees who are not covered by the Company's other pension plans. The pension expense for these plans approximated \$37.5 million, \$35.3 million and \$31.5 million in fiscal 2001, 2000 and 1999, respectively. The Company could, under certain circumstances, be liable for unfunded vested benefits or other expenses of jointly administered union/management plans. At this time, the Company has not established any liabilities for future withdrawals because such withdrawals from these plans are not probable.

Postretirement Benefits

The Company provides postretirement health care and life benefits to certain union and non-union employees. The Company recognizes the cost of providing postretirement benefits during employees' active service period. These benefits are accounted for on a calendar year basis.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

The components of net postretirement benefits cost are as follows:

	52 Weeks Ended		
	December 31, 2001	December 31, 2000	December 31, 1999
Service cost	\$ 565	\$ 487	\$ 548
Interest cost	2,365	2,060	1,977
Prior service cost	(1,380)	(1,347)	(1,347)
Amortization of gain	(123)	(692)	(509)
Net postretirement benefits cost	<u>\$ 1,427</u>	<u>\$ 508</u>	<u>\$ 669</u>

The unfunded status of the plans is as follows:

	December 31, 2001	December 31, 2000
Unfunded accumulated benefit obligation at beginning of year	\$33,713	\$28,190
Service cost	565	487
Interest cost	2,365	2,060
Benefits paid	(2,248)	(1,937)
Actuarial loss (gain)	1,240	6,131
Foreign exchange	(496)	(1,218)
Accumulated benefit obligation at end of year	35,139	33,713
Unrecognized net gain from experience differences	1,521	2,658
Unrecognized prior service cost	<u>12,317</u>	<u>13,715</u>
Accrued postretirement benefit costs at end of year	<u>\$48,977</u>	<u>\$50,086</u>
Assumed discount rate:		
U.S.	6.75%	7.50%
Canada	6.75%	7.00%

The assumed rate of future increase in health care benefit cost for fiscal 2001 was 8.50% and is expected to decline to 5.0% by the year 2020 and remain at that level thereafter. The effect of a 1% change in the assumed health care cost trend rate for each future year on the net postretirement health care cost would either increase or decrease by \$0.1 million, while the accumulated postretirement benefit obligation would either increase by \$1.6 million or decrease by \$1.4 million.

Postemployment Benefits

The Company accrues costs for pre-retirement, postemployment benefits provided to former or inactive employees and recognizes an obligation for these benefits. The costs of these benefits have been included in operations for each of the three fiscal years in the period ended February 23, 2002. As of February 23, 2002 and February 24, 2001, the Company had a liability reflected on the Consolidated Balance Sheets of \$24.7 million and \$23.6 million, respectively, related to such benefits.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Note 11 – Stock Options

At February 23, 2002, the Company has four fixed stock-based compensation plans. The Company applies the principles of APB 25 for stock options and FASB Interpretation No. 28 for Stock Appreciation Rights ("SAR's"). SAR's allow the holder, in lieu of purchasing stock, to receive cash in an amount equal to the excess of the fair market value of common stock on the date of exercise over the option price. Most of the options and SAR's vest over a four year period on the anniversary date of issuance, while some options vest immediately.

Effective July 13, 1999, the Board of Directors and stockholders approved the 1998 Long Term Incentive and Share Award Plan (the "1998 Plan") for its officers and key employees. The 1998 Plan provides for the granting of 5,000,000 shares as options, SAR's or stock awards.

The Company's 1994 Stock Option Plan (the "1994 Plan") for officers and key employees provided for the granting of 1,500,000 shares as either options or SAR's. The 1984 Stock Option Plan for officers and key employees, which expired on February 1, 1994, provided for the granting of 1,500,000 shares and was amended as of July 10, 1990 to increase by 1,500,000 the number of options available for grant as either options or SAR's.

The 1994 Stock Option Plan for Board of Directors provides for the granting of 100,000 stock options at the fair market value of the Company's common stock at the date of grant. Options granted under this plan totaled 8,000 in both fiscal 2001 and fiscal 2000 and 3,600 in fiscal 1999. At February 23, 2002, there were 67,600 options available for grants under this plan.

Options and SAR's issued under all of the Company's plans are granted at the fair market value of the Company's common stock at the date of grant. In fiscal 2001, options granted under the 1998 Plan and the 1994 Plan totaled 1,172,113 and 326,400, respectively. There were no SAR's granted during fiscal 2001. At February 23, 2002, there were 1,825,320 and 193,800 options available for grants under the 1998 Plan and 1994 Plan, respectively.

The Company accounts for stock options using the intrinsic value-based method prescribed by APB 25. Had compensation cost for the Company's stock options been determined based on the fair value at the grant dates for awards under those plans consistent with the fair value methods prescribed by SFAS 123, the Company's net (loss) income and (loss) income per share would have been reduced to the pro forma amounts indicated below:

	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>Fiscal 1999</u>
Net (loss) income:			
As reported	\$(71,906)	\$(19,500)	\$35,313
Pro forma	\$(76,865)	\$(23,643)	\$32,428
Net (loss) income per share – basic and diluted			
As reported	\$ (1.88)	\$ (0.51)	\$ 0.92
Pro forma	\$ (2.00)	\$ (0.62)	\$ 0.85

The pro forma effect on net (loss) income and net (loss) income per share may not be representative of the pro forma effect in future years because it includes compensation cost on a straight-line basis over the vesting periods of the grants.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

The fair value of the fiscal 2001, 2000 and 1999 option grants was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>Fiscal 1999</u>
Expected life	7 years	7 years	7 years
Volatility	55%	60%	30%
Dividend yield range	0%	0%-4.60%	1.08%-1.42%
Risk-free interest rate range	4.07%-5.40%	4.94%-6.69%	5.37%-6.78%

With respect to SAR's, for fiscal 2001, the Company recognized compensation expense of \$0.5 million. For fiscal 2000, no expense was recorded due to the decline in the Company's stock price. For fiscal 1999, the Company recognized a \$3.1 million credit to reverse previously accrued SAR compensation charges due to the decline in the Company's stock price. There was no compensation expense recognized for the other fixed plans since the exercise price of the stock options equaled the fair market value of the Company's common stock on the date of grant.

A summary of option transactions is as follows:

Officers, Key Employees and Directors

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding February 27, 1999	1,799,800	\$29.55
Granted	491,650	32.35
Cancelled or expired	(211,000)	29.69
Exercised	(56,500)	26.64
Outstanding February 26, 2000	2,023,950	\$30.30
Granted	1,498,550	16.11
Cancelled or expired	(277,836)	26.88
Outstanding February 24, 2001	3,244,664	\$24.04
Granted	1,506,513	9.48
Cancelled or expired	(419,780)	25.61
Exercised	(20,412)	14.85
Outstanding February 23, 2002	<u>4,310,985</u>	<u>\$18.84</u>
Exercisable at:		
February 24, 2001	1,046,205	\$29.55
February 23, 2002	1,393,561	\$26.97

The weighted average fair values of options granted during the last three fiscal years are as follows:

Fiscal 1999	\$12.64
Fiscal 2000	\$ 8.80
Fiscal 2001	\$ 5.77

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

A summary of stock options outstanding and exercisable at February 23, 2002 is as follows:

Average Range of Exercise Prices	Options Outstanding at 2/23/02	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at 2/23/02	Weighted Average Exercise Price
\$ 7.44 - \$10.87	1,690,863	9.0 years	\$ 8.89	34,550	\$ 8.54
\$11.63 - \$16.31	44,667	9.3 years	\$13.91	1,919	\$16.24
\$17.30 - \$18.88	1,021,862	8.1 years	\$17.96	278,218	\$17.95
\$21.50 - \$30.00	521,950	4.5 years	\$27.48	479,283	\$27.56
\$30.25 - \$31.75	655,350	6.8 years	\$31.39	402,600	\$31.34
\$32.31 - \$37.00	376,293	7.3 years	\$32.70	196,991	\$32.70
	<u>4,310,985</u>			<u>1,393,561</u>	

A summary of SAR transactions is as follows:

Officers and Key Employees

	Shares	Price Range Per Share
Outstanding February 27, 1999	1,179,719	\$21.88 - 65.13
Cancelled or expired	(212,250)	23.38 - 65.13
Exercised	(84,707)	21.88 - 27.25
Outstanding February 26, 2000	882,762	\$21.88 - \$52.38
Cancelled or expired	(375,000)	24.75 - 52.38
Outstanding February 24, 2001	507,762	\$21.88 - \$45.38
Cancelled or expired	(265,625)	23.38 - 24.75
Exercised	(9,375)	23.38 - 45.38
Outstanding February 23, 2002	<u>232,762</u>	<u>\$21.88 - \$31.63</u>
Exercisable at:		
February 24, 2001	506,512	\$21.88 - \$45.38
February 23, 2002	232,762	\$21.88 - \$31.63

Note 12 – Commitments and Contingencies

On January 13, 2000, the Attorney General of the State of New York filed an action in New York Supreme Court, County of New York, alleging that the Company and its subsidiary Shopwell, Inc., together with the Company's outside delivery service Chelsea Trucking, Inc., violated New York law by failing to pay minimum and overtime wages to individuals who deliver groceries at one of the Food Emporium's stores in New York City. The complaint seeks a determination of violation of law, an unspecified amount of restitution, an injunction and costs. A purported class action lawsuit was filed on January 13, 2000 in the federal district court for the Southern District of New York against the Company, Shopwell, Inc. and others by Faty Ansoumana and others. The federal court action makes similar minimum wage and overtime pay allegations under both federal and state law and extends the

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

allegations to various stores operated by the Company. In May 2001, the federal court granted plaintiffs' motion for certification of a class action. On June 18, 2002, the plaintiffs, the Attorney General and the Company entered into a Memorandum of Understanding providing for a settlement of the actions brought by the plaintiff class and by the Attorney General. Under the proposed settlement, the Company would pay approximately \$3 million in full settlement of the actions and would receive releases from the class and the Attorney General, and the actions would be dismissed with prejudice. The proposed settlement remains subject to, among other things, execution of a definitive settlement agreement and the approval of the federal court. The settlement amount has been accrued for and is included in "Other accruals" on the Company's Consolidated Balance Sheets.

On June 5, 2002, a purported securities class action Complaint was filed in the United States District Court for the District of New Jersey against the Company and certain of its officers and directors in an action captioned *Brody v. The Great Atlantic & Pacific Tea Co., Inc., et al.*, Civ. Action No. 02-2674 (FSH) (D.N.J.). On June 17, 2002 and June 26, 2002, two similar purported class action Complaints, captioned *Huelsman v. The Great Atlantic & Pacific Tea Co., Inc., et al.*, Civ. Action No. 02-2882 (JAG) (D.N.J.), and *Davis v. The Great Atlantic & Pacific Tea Co., Inc., et. al.*, Civ. Action No. 02-3059 (WGB) (D.N.J.), respectively, were filed in the same federal district court. (The lawsuits are referred to collectively hereinafter as the "Class Action Lawsuits.") The Complaints in the Class Action Lawsuits purport to assert claims under Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Securities Exchange Act of 1934 arising out of the Company's accounting practices, and allege that the Company made material misrepresentations and omissions concerning its financial results. The Complaints in the Class Action Lawsuits seek unspecified money damages, costs and expenses.

On May 31, 2002, a stockholders' derivative Complaint was filed in the Superior Court of New Jersey in Bergen County against the Company's Board of Directors and certain of its executive officers in an action entitled *Osher v. Barlin, et al.*, Civ. Action No. BER L-4673-02 (N.J. Super. Ct.). The Complaint alleges that the defendants violated their fiduciary obligations to the Company and its stockholders by failing to establish and maintain adequate accounting controls and mismanaging the assets and business of the Company, and seeks unspecified money damages, costs and expenses.

The Company is subject to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. The Company is also subject to certain environmental claims. While the outcome of these claims cannot be predicted with certainty, Management does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's consolidated results of operations, financial position or cash flows.

As part of the Company's business process initiative, contracts have been entered committing the Company to purchase hardware, software and consulting services from various vendors. At February 23, 2002, these commitments totaled \$36.1 million. These purchases will be made, in accordance with the terms of their contracts, over the next three fiscal years.

The Company is the guarantor of a debt commitment of \$2.5 million which will expire in 2011.

The Company has product supply agreements that require it to make purchases totaling \$58 million as of February 23, 2002.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Note 13 – Operating Segments

The Company currently operates in three reportable segments: United States Retail, Canada Retail and Canada Wholesale. The retail segments are comprised of retail supermarkets in the United States and Canada, while the Wholesale segment is comprised of the Company's Canadian operation that serves as exclusive wholesaler to the Company's franchised stores and serves as wholesaler to certain third party retailers.

The accounting policies for the segments are the same as those described in the summary of significant accounting policies. The Company measures segment performance based upon operating profit.

Information on segments is as follows:

<u>OPERATING DATA</u>	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>Fiscal 1999</u>
Sales			
U.S. Retail	\$ 8,490,104	\$ 8,247,224	\$ 7,981,134
Canada Retail	1,806,705	1,745,129	1,646,712
Canada Wholesale	676,506	630,513	523,488
Total Company	<u>\$10,973,315</u>	<u>\$10,622,866</u>	<u>\$10,151,334</u>
Depreciation and amortization			
U.S. Retail	\$ 227,257	\$ 223,550	\$ 204,975
Canada Retail	35,295	32,221	27,413
Canada Wholesale	—	—	324
Total Company	<u>\$ 262,552</u>	<u>\$ 255,771</u>	<u>\$ 232,712</u>
(Loss) income from operations			
U.S. Retail	\$ (62,271)	\$ 22,703	\$ 111,955
Canada Retail	12,213	19,676	17,029
Canada Wholesale	26,534	23,651	18,098
Total Company	<u>\$ (23,524)</u>	<u>\$ 66,030</u>	<u>\$ 147,082</u>
Interest expense			
U.S. Retail	\$ (81,574)	\$ (88,084)	\$ (76,497)
Canada Retail	(7,557)	(11,436)	(11,504)
Canada Wholesale	(2,591)	(2,968)	(2,444)
Total Company	<u>\$ (91,722)</u>	<u>\$ (102,488)</u>	<u>\$ (90,445)</u>
Interest income			
U.S. Retail	\$ 1,377	\$ 50	\$ 317
Canada Retail	1,970	2,099	2,521
Canada Wholesale	3,625	4,073	3,380
Total Company	<u>\$ 6,972</u>	<u>\$ 6,222</u>	<u>\$ 6,218</u>
(Loss) income before income taxes and extraordinary item			
U.S. Retail	\$ (142,468)	\$ (65,331)	\$ 35,775
Canada Retail	6,626	10,339	8,046
Canada Wholesale	27,568	24,756	19,034
Total Company	<u>\$ (108,274)</u>	<u>\$ (30,236)</u>	<u>\$ 62,855</u>

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

<u>FINANCIAL POSITION DATA</u>	<u>February 23, 2002</u>	<u>February 24, 2001</u>	<u>February 26, 2000</u>
Capital expenditures			
U.S. Retail	\$ 192,705	\$ 356,850	\$ 416,863
Canada Retail	53,477	58,992	61,444
Canada Wholesale	—	—	1,265
Total Company	<u>\$ 246,182</u>	<u>\$ 415,842</u>	<u>\$ 479,572</u>
Total assets			
U.S. Retail	\$2,600,281	\$2,688,571	\$2,680,458
Canada Retail	520,625	548,801	567,573
Canada Wholesale	73,358	81,785	83,328
Total Company	<u>\$3,194,264</u>	<u>\$3,319,157</u>	<u>\$3,331,359</u>
Long-lived assets			
United States	\$1,451,235	\$1,637,036	\$1,652,094
Canada	289,088	287,211	265,818
Total Company	<u>\$1,740,323</u>	<u>\$1,924,247</u>	<u>\$1,917,912</u>

Note 14 – Sale-Leaseback Transactions

During the fourth quarter of fiscal 2000, the Company sold 12 properties and simultaneously leased them back from the purchaser. The properties subject to this sale had a carrying value of approximately \$68 million. Net proceeds received by the Company related to this transaction amounted to approximately \$113 million. Of the 12 properties sold, 11 were sold for a profit resulting in a gain after deducting expenses of approximately \$45 million. This gain will be deferred and amortized over the lives of the respective leases as a reduction of rental expense. One property in the aforementioned transaction was sold at a loss of approximately \$3 million after expenses. Since the fair value of this property was less than its carrying value, the Company recognized this loss in full during fiscal 2000.

During fiscal 2001, the Company sold 9 additional properties and simultaneously leased them back from the purchaser. The properties subject to this sale had a carrying value of approximately \$52 million. Net proceeds received by the Company related to these transactions amounted to approximately \$65 million. Of the 9 properties sold, 6 were sold for a profit resulting in a gain after deducting expenses of approximately \$15 million. This gain will be deferred and amortized over the lives of the respective leases as a reduction of rental expense. Three properties in the aforementioned transaction were sold at a loss of approximately \$4 million after expenses. The majority of this loss was related to one of these properties, which was anticipated at the end of fiscal 2000, and, accordingly, was recognized in full at that time since the carrying value of such property exceeded its fair value less the cost of disposal.

The Company expects to enter into similar transactions with other owned properties from time to time in the future.

The resulting leases of the 21 properties sold in fiscal 2000 and 2001 have terms ranging from 20 to 25 years, with options to renew for additional periods, and are being accounted for as operating leases in accordance with SFAS No. 13, "Accounting for Leases". Future minimum lease payments for these

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

operating leases, which have been included in the future minimum lease payments table in Note 8 – Lease Obligations, are as follows:

<u>Fiscal</u>	
2002	\$ 20,612
2003	20,612
2004	20,612
2005	20,612
2006	20,612
2007 and thereafter	<u>319,925</u>
Total	<u>\$422,985</u>

Note 15 – Gain On Proceeds From The Demutualization Of A Mutual Insurance Company

During the fourth quarter of fiscal 2001, the Company received cash and common stock totaling \$60.6 million from the demutualization of The Prudential Insurance Company. This amount was recorded as a nonrecurring gain and included in the determination of pretax income for fiscal 2001. At February 23, 2002, the Company had an unrealized gain of \$0.9 million related to the aforementioned common stock held as available for sale securities that was recorded as a separate component of Stockholders' Equity.

Note 16 – Related Party Transactions

A&P Properties Limited, an indirect subsidiary of the Company, leases a store in Windsor, Ontario, Canada that sits on property of Tenga Capital Corporation, which is owned by Erivan and Helga Haub. Erivan Haub is the father of Christian W. E. Haub, the Company's Chairman and Chief Executive Officer, and owns a controlling interest in Tengelmenn, which owns a controlling interest of the Company's common stock. Helga Haub is the mother of Christian W. E. Haub and is a member of the Company's Board of Directors. The initial term of the lease, which commenced in 1983, expires on October 31, 2003, with four 5-year renewal options. The base annual rental is CN\$0.5 million (U.S. \$0.3 million at February 23, 2002), with percentage rents subject to specified caps.

The Company is a party to agreements granting Tengelmenn and its affiliates the exclusive right to use the "A&P®" and "Master Choice®" trademarks in Germany and other European countries pursuant to which it received \$0.1 million during each of fiscal 2001, 2000 and 1999 which is the maximum annual royalty fee under such agreements. The Company is also a party to agreements under which it purchased from Wissoll, which is an affiliate of Tengelmenn, approximately \$0.6 million, \$0.7 million and \$1.0 million worth of the Black Forest line and Master Choice® candy during fiscal 2001, 2000 and 1999, respectively.

The Company owns a jet aircraft which Tengelmenn leases under a full cost reimbursement lease that also allows the Company to charter the aircraft for its use at a below market charter rate. During fiscal 2001, 2000 and 1999, Tengelmenn was obligated to reimburse the Company \$2.5 million, \$3.2 million and \$3.2 million, respectively, for its use of the aircraft.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

Note 17 – Environmental Liability

The Company owns a non-retail real estate location that was subjected to environmental contamination. The Company obtained an environmental remediation report to enable it to assess the potential environmental liability related to this property. Factors considered in determining the liability included, among others, whether the Company had been designated as a potentially responsible party, the number of potentially responsible parties designated at the site, the stage of the proceedings and the available environmental technology.

During the first quarter of fiscal 2000, the Company assessed the likelihood that a loss had been incurred at this site as probable and based on findings included in remediation reports and discussion with legal counsel, estimated the potential loss to be approximately \$3.0 million on an undiscounted basis. Accordingly, such amount was accrued at that time. At each balance sheet date the Company assesses its exposure with respect to this environmental remediation based on current available information. Subsequently, during fiscal 2000, with respect to such review, it was determined that additional costs amounting to approximately \$1.3 million would be incurred to remedy these environmental issues, and accordingly, this additional amount was accrued.

During the fourth quarter of fiscal 2001, due to an unfavorable ruling by the local municipality, which was subsequently upheld by the New Jersey Superior Court, denying the Company's proposed development plan, the Company determined that a decrease in the value of the property had occurred, and recorded an additional charge of \$2.0 million. The total liability, net of costs incurred to date, of \$5.0 million was included in "Other non-current liabilities" on the Consolidated Balance Sheets at February 23, 2002.

Note 18 – Summary of Quarterly Results

The following table summarizes the Company's results of operations by quarter for fiscal 2001 and 2000. The first quarter of each fiscal year contains sixteen weeks, while the other quarters each contain twelve weeks.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

	As Restated ^(e)				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(Dollars in thousands, except per share amounts)				
2001 (unaudited)					
Sales	\$3,388,294	\$2,547,590	\$2,525,388	\$2,512,043	\$10,973,315
Gross margin	970,434	737,376	726,912	715,944	3,150,666
Depreciation and amortization	82,205	61,051	61,697	57,599	262,552
Income (loss) from operations ^(a)	29,625	16,276	(135,284)	65,859	(23,524)
Interest expense	(30,505)	(20,969)	(20,495)	(19,753)	(91,722)
(Loss) income before income taxes and extraordinary item	962	(2,801)	(154,329)	47,894	(108,274)
Extraordinary loss on early extinguishment of debt, net of tax	—	—	—	(7,222)	(7,222)
Net (loss) income ^(b)	(969)	(1,743)	(89,636)	20,442	(71,906)
Per share data:					
(Loss) income before extraordinary item - basic ^(c)	(0.03)	(0.05)	(2.34)	0.72	(1.69)
Extraordinary loss on early extinguishment of debt - basic	—	—	—	(0.19)	(0.19)
Net (loss) income - basic	(0.03)	(0.05)	(2.34)	0.53	(1.88)
(Loss) income before extraordinary item - diluted ^(d)	(0.03)	(0.05)	(2.34)	0.70	(1.69)
Extraordinary loss on early extinguishment of debt - diluted ^(d)	—	—	—	(0.18)	(0.19)
Net (loss) income - diluted ^(d)	(0.03)	(0.05)	(2.34)	0.52	(1.88)
Market price:					
High				27.20	
Low				20.66	
Number of stores at end of period				702	
Number of franchised stores served at end of period				67	

Such amounts are comprised of the following; item (b) is net of applicable income taxes:

(a) Asset disposition initiative	\$ —	\$ (217)	\$ (164,658)	\$ (28,593)	\$ (193,468)
Gain on proceeds from insurance company demutualization	—	—	—	60,606	60,606
All other earnings from operations	29,625	16,493	29,374	33,846	109,338
Income (loss) from operations	<u>\$ 29,625</u>	<u>\$ 16,276</u>	<u>\$ (135,284)</u>	<u>\$ 65,859</u>	<u>\$ (23,524)</u>
(b) Asset disposition initiative	\$ —	\$ (126)	\$ (95,529)	\$ (16,613)	\$ (112,268)
Gain on proceeds from insurance company demutualization	—	—	—	35,151	35,151
Extraordinary loss on early extinguishment of debt	—	—	—	(7,222)	(7,222)
All other (losses) earnings	(969)	(1,617)	5,893	9,126	12,433
Net (loss) income	<u>\$ (969)</u>	<u>\$ (1,743)</u>	<u>\$ (89,636)</u>	<u>\$ 20,442</u>	<u>\$ (71,906)</u>

(c) The sum of quarterly basic income per share differs from full year amounts because the number of weighted average common shares outstanding has increased each quarter.

(d) The sum of quarterly diluted income per share differs from the full year amounts because securities that are dilutive in the fourth quarter are antidilutive on a full-year basis.

(e) See Note 2 – Restatement of Previously Issued Financial Statements.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

	As previously reported		
	First Quarter	Second Quarter	Third Quarter
2001 (unaudited)	(Dollars in thousands, except per share amounts)		
Sales	\$3,388,294	\$2,547,590	\$2,525,388
Gross margin	961,022	738,497	725,437
Depreciation and amortization	82,205	61,051	61,697
Income (loss) from operations ^(a)	17,542	12,625	(141,284)
Interest expense	(29,060)	(19,884)	(19,410)
(Loss) income before income taxes and extraordinary item	(9,676)	(5,367)	(159,244)
Extraordinary loss on early extinguishment of debt, net of tax	—	—	—
Net (loss) income ^(b)	(7,139)	(3,231)	(92,487)
Per share data:			
(Loss) income before extraordinary item – basic	(0.19)	(0.08)	(2.41)
Extraordinary loss on early extinguishment of debt – basic	—	—	—
Net (loss) income – basic	(0.19)	(0.08)	(2.41)
(Loss) income before extraordinary item – diluted	(0.19)	(0.08)	(2.41)
Extraordinary loss on early extinguishment of debt – diluted	—	—	—
Net (loss) income – diluted	(0.19)	(0.08)	(2.41)
Market price:			
High	14.00	20.30	23.95
Low	8.13	12.51	13.18
Number of stores at end of period	747	743	740
Number of franchised stores served at end of period	67	67	67

Such amounts are comprised of the following; item (b) is net of applicable income taxes:

(a) Asset disposition initiative	\$ —	\$ (217)	\$ (164,658)
All other earnings from operations	17,542	12,842	23,374
(Loss) income from operations	<u>\$ 17,542</u>	<u>\$ 12,625</u>	<u>\$ (141,284)</u>
(b) Asset disposition initiative	\$ —	\$ (126)	\$ (95,529)
All other (losses) earnings	(7,139)	(3,105)	3,042
Net (loss) income	<u>\$ (7,139)</u>	<u>\$ (3,231)</u>	<u>\$ (92,487)</u>

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements – Continued

(As Restated — See Note 2)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(Dollars in thousands, except per share amounts)				
2000 (unaudited)					
Sales	\$3,199,820	\$2,439,534	\$2,428,790	\$2,554,722	\$10,622,866
Gross margin	922,826	706,208	689,209	723,533	3,041,776
Depreciation and amortization	76,648	58,803	59,596	60,724	255,771
Income (loss) from operations	39,648	13,769	(3,201)	15,814	66,030
Interest expense	(30,905)	(23,609)	(24,717)	(23,257)	(102,488)
Net income (loss)	5,505	(5,443)	(15,984)	(3,578)	(19,500)
Per share data:					
Net income (loss) – basic and diluted	0.14	(0.14)	(0.42)	(0.09)	(0.51)

As previously reported

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(Dollars in thousands, except per share amounts)				
2000 (unaudited)					
Sales	\$3,199,820	\$2,439,534	\$2,428,790	\$2,554,722	\$10,622,866
Gross margin	919,345	704,253	688,560	716,258	3,028,416
Depreciation and amortization	76,648	58,803	59,596	60,724	255,771
Income (loss) from operations	37,813	12,409	(2,184)	2,155	50,193
Interest expense	(28,936)	(22,132)	(23,240)	(21,780)	(96,088)
Net income (loss)	5,584	(5,374)	(14,513)	(10,765)	(25,068)
Per share data:					
Net income (loss) – basic and diluted	0.15	(0.14)	(0.38)	(0.28)	(0.65)
Cash dividends	0.10	0.10	0.10	—	0.30
Market price:					
High	24.06	17.88	11.50	11.85	
Low	17.41	12.06	9.13	6.25	
Number of stores at end of period	749	750	751	752	
Number of franchised stores served at end of period	63	67	68	68	

Management's Report on Financial Statements

The Management of The Great Atlantic & Pacific Tea Company, Inc. has prepared the consolidated financial statements and related financial data contained in this Annual Report. The financial statements were prepared in accordance with generally accepted accounting principles appropriate to the business and, by necessity and circumstance, include some amounts which were determined using Management's best judgments and estimates with appropriate consideration to materiality.

Management is responsible for the integrity and objectivity of the financial statements and other financial data included in this report. To meet this responsibility, Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that accounting records are reliable. Management supports a program of internal audits and internal accounting control reviews to provide reasonable assurance that the system is operating effectively.

The Board of Directors pursues its responsibility for reported financial information through its Audit Committee. The Audit Committee meets periodically and, when appropriate, separately with Management, internal auditors and the independent auditors, Deloitte & Touche LLP, to review each of their respective activities.



Christian W.E. Haub
Chairman of the Board,
Chief Executive Officer



Mitchell P. Goldstein
Senior Vice President,
Chief Financial Officer

Independent Auditors' Report

To the Stockholders and Board of Directors of The Great Atlantic & Pacific Tea Company, Inc.:

We have audited the accompanying consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies as of February 23, 2002 and February 24, 2001 and the related statements of consolidated operations, consolidated stockholders' equity and comprehensive (loss) income, and consolidated cash flows for each of the three fiscal years in the period ended February 23, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies at February 23, 2002 and February 24, 2001 and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 23, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the accompanying financial statements for the years ended February 24, 2001 and February 26, 2000 have been restated.



Deloitte & Touche LLP
Parsippany, New Jersey
July 3, 2002

Five Year Summary of Selected Financial Data

(As Restated - See Note 2)

	Fiscal 2001 (52 Weeks) ^(d)	Fiscal 2000 (52 Weeks) ^(d)	Fiscal 1999 (52 Weeks) ^(d)	Fiscal 1998 (52 Weeks) ^{(c)(d)} (unaudited)	Fiscal 1997 (53 Weeks) ^{(c)(d)} (unaudited)
(Dollars in thousands, except per share amounts)					
Operating Results					
Sales	\$10,973,315	\$10,622,866	\$10,151,334	\$10,179,358	\$10,262,243
(Loss) income from operations ^(a)	(23,524)	66,030	147,082	(149,337)	162,256
Depreciation and amortization	(262,552)	(255,771)	(232,712)	(233,663)	(234,236)
Interest expense	(91,722)	(102,488)	(90,445)	(71,497)	(80,152)
Net (loss) income before extraordinary item	(64,684)	(19,500)	35,313	(58,282)	67,714
Extraordinary loss on early extinguishment of debt, net of tax	(7,222)	—	—	—	(544)
Net (loss) income ^(b)	(71,906)	(19,500)	35,313	(58,282)	67,170
Per Share Data					
(Loss) income before extraordinary item - basic	(1.69)	(0.51)	0.92	(1.52)	1.77
Extraordinary loss on early extinguishment of debt - basic	(0.19)	—	—	—	(0.01)
Net (loss) income - basic	(1.88)	(0.51)	0.92	(1.52)	1.76
(Loss) income before extraordinary item - diluted	(1.69)	(0.51)	0.92	(1.52)	1.77
Extraordinary loss on early extinguishment of debt - diluted	(0.19)	—	—	—	(0.01)
Net (loss) income - diluted	(1.88)	(0.51)	0.92	(1.52)	1.76
Cash dividends	—	0.30	0.40	0.40	0.40
Book value per share	17.54	19.53	20.65	20.76	22.88
Financial Position					
Current assets	\$ 1,212,074	\$ 1,197,873	\$ 1,218,717	\$ 1,243,110	\$ 1,217,227
Current liabilities	1,184,463	1,130,062	1,153,173	1,134,063	955,130
Working capital	27,611	67,811	65,544	109,047	262,097
Current ratio	1.02	1.06	1.06	1.10	1.27
Expenditures for property	246,182	415,842	479,572	438,345	267,623
Total assets	3,194,264	3,319,157	3,331,359	3,160,814	2,995,253
Current portion of long-term debt	526	6,195	2,382	4,956	16,824
Current portion of capital lease obligations	10,691	11,634	11,327	11,483	12,293
Long-term debt	779,440	915,321	865,675	728,390	695,292
Long-term portion of capital lease obligations	93,587	106,797	117,870	115,863	120,980
Total debt	884,244	1,039,947	997,254	860,692	845,389
Debt to total capitalization	57%	58%	56%	52%	49%

Five Year Summary of Selected Financial Data – Continued

	(As Restated – See Note 2)				
	Fiscal 2001 (52 Weeks) ^(d)	Fiscal 2000 (52 Weeks) ^(d)	Fiscal 1999 (52 Weeks) ^(d)	Fiscal 1998 (52 Weeks) ^{(c)(d)} (unaudited)	Fiscal 1997 (53 Weeks) ^{(c)(d)} (unaudited)
	(Dollars in thousands, except per share amounts)				
Equity					
Stockholders' equity	672,988	748,811	792,138	794,783	875,276
Weighted average shares outstanding	38,350,616	38,347,216	38,330,379	38,273,859	38,249,832
Number of registered stockholders	6,087	6,281	6,890	7,419	8,029
Other					
Number of employees	78,995	83,000	80,900	83,400	79,980
New store openings	21	47	54	46	40
Number of stores at year end	702	752	750	839	936
Total store area (square feet)	26,664,312	27,931,729	26,904,331	28,736,319	30,574,286
Number of franchised stores served at year end	67	68	65	55	52
Total franchised store area (square feet)	2,108,969	2,021,206	1,908,271	1,537,388	1,389,435

Such amounts are comprised of the following; item (b) is net of applicable income taxes:

(a) Asset disposition initiative	\$ (193,468)	\$ —	\$ (59,886)	\$ (279,415)	\$ —
Gain on proceeds from insurance company demutualization	60,606	—	—	—	—
All other earnings from operations	109,338	66,030	206,968	130,078	162,256
(Loss) income from operations	<u>\$ (23,524)</u>	<u>\$ 66,030</u>	<u>\$ 147,082</u>	<u>\$ (149,337)</u>	<u>\$ 162,256</u>
(b) Asset disposition initiative	\$ (112,268)	\$ —	\$ (34,836)	\$ (166,517)	\$ —
Gain on proceeds from insurance company demutualization	35,151	—	—	—	—
Extraordinary loss on early extinguishment of debt	(7,222)	—	—	—	(544)
Reversal of deferred tax asset valuation allowance	—	—	—	60,300	—
All other earnings (losses)	12,433	(19,500)	70,149	47,935	67,714
Net (loss) income	<u>\$ (71,906)</u>	<u>\$ (19,500)</u>	<u>\$ 35,313</u>	<u>\$ (58,282)</u>	<u>\$ 67,170</u>

(c) Fiscal 1997 and fiscal 1998 include adjustments consisting of a \$2,900 charge and a \$14,900 credit to self-insurance expense and credits of \$9,897 and \$154 to closed store subleases, respectively. However, the Company was unable to determine the adjustments to the vendor allowance amounts for fiscal 1997 and 1998 since the documentation related to this item was not available. While the adjustments required for fiscal 1997 and 1998 related to vendor allowances cannot be determined with accuracy, Management does not believe that the financial data presented herein are no longer indicative of the results for these periods.

(d) Not derived from audited financial information.

Executive Officers

Christian W.E. Haub
Chairman of the Board,
Chief Executive Officer

Elizabeth R. Culligan
President,
Chief Operating Officer

William P. Costantini
Senior Vice President,
General Counsel and Secretary

Mitchell P. Goldstein
Senior Vice President,
Chief Financial Officer

Laurane S. Magliari
Senior Vice President,
People Resources and Services

John E. Metzger
Senior Vice President,
Chief Information Officer

Richard P. De Santa
Vice President,
Corporate Affairs

Board Of Directors

Christian W.E. Haub (c)(d)
Chairman of the Board,
Chief Executive Officer

John D. Barline, Esq. (b)(c)(e)
Williams, Kastner & Gibbs LLP,
Tacoma, Washington

Rosemarie Baumeister (b)
Senior Vice President,
Tengelmann Warenhandels-gesellschaft,
Muelheim, Germany

Elizabeth R. Culligan (c)(d)
President,
Chief Operating Officer

Bobbie Gaunt (a)(b)
Former President and CEO,
Ford Motor Company of Canada

Helga Haub (c)(d)

Dan P. Kourkouvelis (a)(c)(e)
Former President and CEO,
Quality Food Centers, Inc.

Edward Lewis (c)(d)(e)
Chairman and Chief Executive Officer
Essence Communications Partners

Richard L. Nolan (a)(c)(e)
William Barclay Harding Professor of Management
Technology at the Harvard Business School

Maureen B. Tart-Bezer (a)(d)
Senior Financial Advisor
Wireless MVNO Ventures

- (a) Member of Audit Committee Richard L. Nolan, Chairman
- (b) Member of Compensation Committee John D. Barline, Chairman
- (c) Member of Executive Committee Christian W.E. Haub, Chairman
- (d) Member of Finance Committee Edward Lewis, Chairman
- (e) Member of Governance Committee Dan P. Kourkouvelis, Chairman

Stockholder Information

Executive Offices

Box 418
2 Paragon Drive
Montvale, NJ 07645
Telephone 201-573-9700

Independent Auditors

Deloitte & Touche LLP
Two Hilton Court
Parsippany, NJ 07054

Stockholder Inquiries and Publications

Stockholders, security analysts, members of the media and others interested in further information about the Company are invited to contact the Investor Relations Help Line at 201-571-4537.

Internet users can access information on A&P at:
www.aptea.com

Correspondence concerning stockholder address changes or other stock account matters should be directed to the Company's Transfer Agent & Registrar

American Stock Transfer and Trust Company
59 Maiden Lane
New York, NY 10038
Telephone 800-937-5449
www.amstock.com

Form 10-K

Copies of Form 10-K filed with the Securities and Exchange Commission will be provided to stockholders upon written request to the Secretary at the Executive Offices in Montvale, New Jersey.

Annual Meeting

The Annual Meeting of Stockholders will be held at 9:00 a.m. (EDT) on Tuesday, July 30, 2002 at White Elephant Hotel
50 Easton St.
Nantucket, Massachusetts

Common Stock

Common stock of the Company is listed and traded on the New York Stock Exchange under the ticker symbol "GAP" and has unlisted trading privileges on the Boston, Midwest, Philadelphia, Cincinnati, and Pacific Stock Exchanges. The stock is generally reported in newspapers and periodical tables as "GtAtPc".

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